

WHY DO AUTOCRATS DECENTRALIZE?

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Economic decentralization has profound effects on a country's economic performance, but not all countries pursue decentralization. Why do some countries see decentralization as a better strategy for development than others? What political conditions facilitate or inhibit economic decentralization in autocracies? Studies that focus on democracies have largely reach a consensus that politically decentralized systems tend to pursue economic decentralization policies. This dissertation contends, however, that there is an opposite relationship in autocracies. Specifically, it is the politically centralized autocracies that are more likely to pursue economic decentralization policies. I argue that this difference is because in autocracies, economic decentralization policies often result from a top-down delegation process, as opposed to a bottom-up bargaining process that often prevails in democracies.

This dissertation develops a game-theoretical model to analyze the top-down economic decentralization process in autocracies. I demonstrate that political centralization can make the subnational government more willing to follow the national economic agenda and consequently make the national government more willing to decentralize economic resources. I test the theoretical model with a comparative case study of China from 1949 to 1962 and Mexico from 1917 to 1948. The Chinese case confirms that its centralized political system in the 1950s contributed to the economic decentralization policies during the Great Leap Forward. The Mexican case corroborates that its decentralized political system in the 1920s contributed to the Mexican federal government's consistent efforts to centralize economic resources at the federal level from the 1920s to the 1940s. A further test analyzes a sample of 59 countries from 1972 to 2016. The results support that political centralization reduces

economic decentralization in democracies but facilitates economic decentralization in autocracies. The dissertation contributes to our understanding of the different patterns of economic decentralization and economic governance between democracies and autocracies.

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PREFACE

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1.0 INTRODUCTION

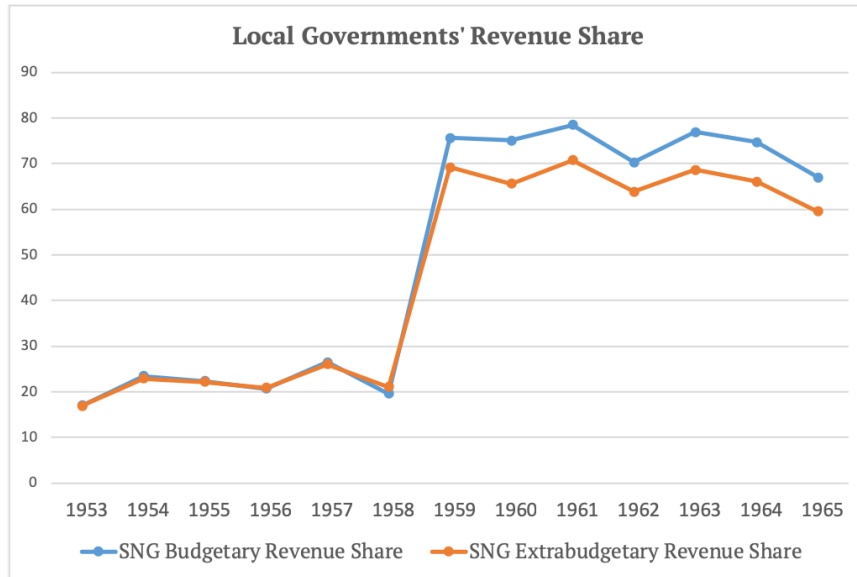
This dissertation addresses the puzzle why some authoritarian regimes pursue economic decentralization policies in a top-down manner. To answer this question, I develop a game-theoretical model between the national and subnational governments and theorize the conditions under which political centralization facilitates economic decentralization in authoritarian regimes. I test this theory qualitatively using the method of difference design complemented by the theory-testing process-tracing method and quantitatively analyzing a sample of 59 countries over the period from 1972 to 2016. Leveraging the method of difference, I compare the postrevolutionary regimes in China from 1949 to 1962 and Mexico from 1917 to 1948 to show that the high level of political centralization contributed to the economic decentralization policies in China, and the low level of political centralization helped explain the economic centralization policies in Mexico. Within both cases, I employ the theory-testing process-tracing method to test the validity of the causal links identified by the theoretical model, namely whether the levels of political centralization affected the economic (de)centralization policies in the way predicted by the model. Quantitatively, I test the different effects of political centralization on fiscal expenditure decentralization levels in different regimes and the evidence supports that different from democracies, political centralization is positively correlated with fiscal decentralization in autocracies.

In this chapter, I first discuss the relevance of the research question. Then, I introduce the key concepts of my theory, i.e., political and economic decentralization, and my rationale for choosing economic decentralization policies as the outcomes of interest. After defining the main concepts, I summarize the current scholarly understanding of the reasons of economic decentralization. I then present a summary of my main argument and its contribution to the literature. The final section lays out the structure of this dissertation.

1.1 PUZZLE

A well-known failed economic experiment in China's modern history is the Great Leap Forward that lasted from 1958 to 1962. During this time, governments at all levels, from the central government to the local communes, all set unrealistic targets for economic production. One of the tragic consequences was that the local governments in the rural areas inflated their grain production figures, resulting excessive procurement and causing large-scale famine in several provinces. A less well-known fact about this period is that along with the frenzy of setting the impossible targets, the economic system witnessed a significant decentralization process, which included granting the local governments more authority in managing the state-owned enterprises, more fiscal resources, and more control over how to spend the local budget.

Figure 1.1. Local Government's Fiscal Revenue Share (1953–1965)



Source: the data are drawn from China Data Online ([China Data Online](#), 2017).

Figure 1.1 shows the local governments' fiscal revenue shares. The blue line shows only the budgetary revenue. The red line includes the extrabudgetary revenue. The local governments' revenue share increased from around 20% in 1958 to around 70% in 1959.

Why did the central government decentralize economic resources and authority to local governments during the Great Leap Forward? It is puzzling because during the Great Leap

Forward the central government had a firm agenda of making China's economy develop at a fast speed. Why at this critical time did the central government choose economic decentralization to realize the developmental goal? Even more puzzling is the consequence. Often we expect that economic decentralization leads the local governments to better utilize their local knowledge and enhance economic efficiency. Why after given the economic resources and authority did the local governments implement policies that did not reflect their local interests at all, but instead caused the economic disasters that harmed their localities?

These puzzles about the Great Leap Forward boil down to one theoretical question: why does an authoritarian national government pursue economic decentralization? In this dissertation, I argue that in the authoritarian regimes, political centralization can facilitate economic decentralization policies. This seems to be counter-intuitive for scholars studying decentralization in the democratic context, where high levels of political centralization often lead to economic centralization policies, while economic decentralization outcomes are often resulted from a high level of political decentralization. One reason for this difference across regime types is that in authoritarian context, especially regimes that do not face democratization, the process that leads to economic decentralization is often a top-down delegation process, where the national government's initiative is crucial. On the other hand, in democracies, economic decentralization is often a result of a bottom-up bargaining process between the national government and the subnational governments, where the subnational governments' political autonomy was crucial for understanding the economic decentralization outcome.

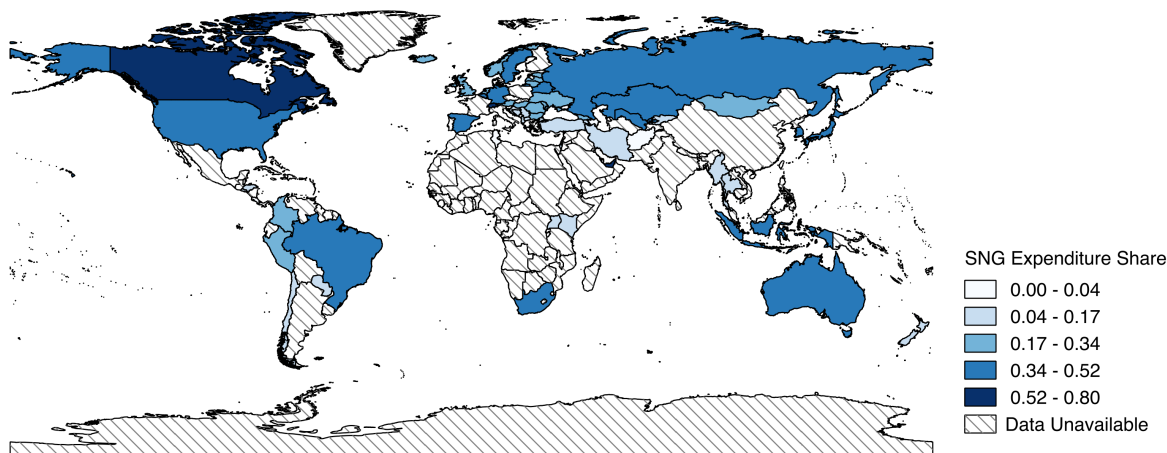
1.2 RELEVANCE OF THE RESEARCH QUESTION

1.2.1 Decentralization

To all countries that have multi-tiered administrative structures, we can raise this question: how much authority do the subnational governments have? Countries differ widely in terms of their decentralization levels. Figure [1.2](#) shows the average fiscal expenditure decentralization

levels during the period from 1972 to 2016 in the world.

Figure 1.2. Average Fiscal Expenditure Decentralization in the World (1972–2016)



Source: the data are drawn from IMF Fiscal Decentralization Dataset ([International Monetary Fund, 2018](#); [Lledó et al., 2018](#)).

The level of decentralization has both political and economic implications. Political philosophers, such as Montesquieu, Rousseau and Tocqueville, praise the benefits of decentralization, including that decentralization brings power closer to the people, increases government's accountability and fosters democracy ([Rodden, 2006](#), p. 1). Economists argue that federalism and decentralization influence the efficiency of public goods provision ([Oates, 1972](#); [Tiebout, 1956](#)) and economic performance ([Weingast, 1995](#); [Oi, 1992](#); [Lin and Liu, 2000](#); [Shah, 1998](#)).

Decentralization levels are crucial for understanding the political dynamics and economic performance of different countries. If there is an optimal level of decentralization for each country, why do not all countries settle at that level? Why do some countries stay centralized, despite the inefficiency associated with centralization? Answering these questions not only can solve our puzzle about decentralization but can also shed light on the broader questions, such as why certain countries have better economic performance than others.

1.2.2 Authoritarian regimes

As the third-wave democratization momentum wanes, we observe authoritarian resilience. Several democracies in developing countries witness the rise of strongman with populist styles since the 2000s. Some of these examples include Chávez in Venezuela, Putin in Russia, and Erdogan in Turkey. Although we can debate whether such regimes are authoritarian, given that these leaders are popularly elected, these leaders tend to encroach on the independence of the other branches, the media, and sometimes do not play by the rules resulting in more difficulties for the challengers to rise and rendering the elections less fair. [Lührmann and Lindberg \(2019\)](#) position this trend of rising authoritarianism in the historical context, trace its origin to the 1990s, and refer to it as “a third wave of autocratization” (pp. 8–9).

At this historical juncture, political scientists observe that authoritarianism stays as countries develop economically, and realize the importance to be and indeed become more objective when studying regime types. Particularly, more and more scholars challenge the optimistic view of the modernization theory that claims economic development leads to democratization. Instead, scholars treat authoritarian regimes as what they are and try to understand the political dynamics of such regimes without assuming democratization. This brings about an ongoing heated discussion about the functions and impacts of formal institutions in authoritarian regimes, including legislatures ([Gandhi, 2008](#); [Wright, 2008](#)), political parties ([Magaloni, 2006](#); [Svolik, 2012](#)), and elections ([Blaydes, 2011](#)).

This line of research is very focused on the formal political institutions and the logic of political survival, using the book title of [Bueno de Mesquita et al. \(2003\)](#). The advantage of the current research agenda is that it generates fruitful dialogues among rational choice scholars to better understand these formal institutions in the authoritarian contexts and seems promising to produce a coherent grand theory of authoritarian rule, a task taken up by [Svolik \(2012\)](#). Its downside is that this narrow focus on the few formal institutions, i.e., legislatures, parties and elections, which are the formal institutions political scientists emphasize when studying democracies understandably, limits scholars’ ability to develop a theoretical framework to understand authoritarian regimes.

Particularly, the recent literature on authoritarian institutions often downplays the eco-

economic development goal of the authoritarian regimes, which however is central in the classic literature on authoritarian rule (Evans, 1995; Evans, Rueschemeyer and Skocpol, 1999; O'Donnell, 1988). A more comprehensive understanding of authoritarian regimes requires a better understanding of how the economic goal affects the political dynamics in authoritarian systems. By studying the causes of economic decentralization, this dissertation aims to complement the current research agenda by bringing the development goal back into the studies of authoritarian politics.

1.3 EXPLAINING ECONOMIC DECENTRALIZATION

1.3.1 Definitions of Key Concepts

To explain the variation of economic decentralization levels among authoritarian regimes, I propose a game-theoretical model that contends a high level of political centralization can facilitate economic decentralization policies under certain conditions. Chapter 2 discusses the details of the model. In this section, I introduce the concepts.

My explanatory variable is the level of political centralization. It is the degree to which political power in a polity is concentrated in the center. Broadly speaking, the center refers to the national government as well as other types of political forces (e.g., political parties and the military) at the central level. The degree of power concentration can change via a political centralization or decentralization process, by shifting political power to or away from the center respectively. There are two salient aspects of political centralization that the existing literature emphasizes, which are (1) the center's control over subnational government officials' career prospects (Enikolopov and Zhuravskaya, 2007) and (2) the decision-making autonomy of subnational governments (Treisman, 2007). The center's control over subnational government officials' career is a unique feature of political centralization. It does not overlap with other types of decentralization. On the other hand, the decision-making autonomy of subnational governments can overlap with other types of decentralization. For instance, the decision-making autonomy of the subnational government that involves setting

the subnational units' tax rates can be considered as an aspect of fiscal centralization and economic centralization (Rodden, 2004). In this dissertation, I use political centralization only to refer to the center's control over subnational government officials' career and theorize its impacts on economic decentralization policies.¹

As for the dependent variable, the economic decentralization policies, these are policies that grant more economic autonomy to the subnational governments. Examples of such economic decentralization policies include fiscal resource decentralization and funded administrative decentralization. Fiscal resource decentralization means increasing subnational government's fiscal resources including subnational government's own revenues as well as transfers from the national government. Funded administrative decentralization means transferring "the dispensation of social services (education, health, housing, etc.) to subnational governments" while providing new fiscal resources to afford such services (Falleti, 2010, p. 17).

Falleti (2010) insightfully pointed out that certain policies which the literature refers to as "decentralization" do not result in more autonomy for the subnational government. An example is unfunded administrative decentralization, which refers to transferring the dispensation of social services without providing the financial resources. Unfunded administrative decentralization often leads to the subnational government taking on more fiscal expenditure that drains their resources and decreases their autonomy (Falleti, 2010, p. 78). Thus, in my study, economic decentralization policies do not include unfunded administrative decentralization that reduces the subnational government's economic autonomy.

In addition to fiscal resource decentralization and funded administrative decentralization, for command economies, the transfer of the administration of the state-owned enterprises from the national government to subnational government is also one instance of economic decentralization.

¹I am agnostic about the relationship between the decision-making autonomy of the subnational governments on economic decentralization policies.

1.3.2 Rationale for Conceptualization

Scholars have conceptualized and classified intergovernmental relations in different ways and their research questions and answers with regard to the causes and effects of intergovernmental relations depend on their conceptualization and classification. In this section I explain my rationale for choosing economic decentralization policies as the dependent variable.

The terminology adopted in political science and economics to describe the intergovernmental relations between the national government and the subnational government, i.e., the state or provincial government, has evolved since the 1960s. Instead of “decentralization,” in the 1960s, the terms most widely used in the literature on intergovernmental relations were “federal systems” and “unitary systems” ([Riker, 1964](#)).

The term “decentralization” started to gain traction in the 1980s, coinciding with the international development agencies’ support for decentralization programs in developing countries. As one of the most influential scholars, Dennis A. Rondinelli introduced the three types of decentralization that to a great extent framed the later discussions on intergovernmental relations: deconcentration, delegation, and devolution. Deconcentration means shifting the workload “from central government ministry headquarters to staff located in offices outside of the national capital, and the staff may not be given the authority to decide how those functions are to be performed.” Delegation means delegating “decision-making and management authority for specific functions to organizations that are only under the indirect control of central government ministries.” Finally, devolution means “the strengthening or creation of independent levels and units of government” ([Rondinelli, 1981](#), pp. 137–139).

These three types of decentralization all describe the policy process of granting more autonomy to the subnational governments; they differ in the amount of autonomy transferred to the subnational governments, with deconcentration being granting the least autonomy and devolution being granting the most autonomy. Although Rondinelli himself only uses “decentralization” to refer to the process whereby the subnational governments’ autonomy changes, the later literature picked up the term and used it to describe the institutional arrangement at a particular point in time.

Compared to “federalism,” using “decentralization” broadens the study of intergovern-

mental relations by enabling scholars (1) to treat the relative autonomy of the subnational governments vis-à-vis the national government as a continuous variable, which was treated by scholars as a dichotomous variable under the federal-unitary divide; (2) to study the change of the relative autonomy of the subnational governments within a country over time, even after the country’s constitutional status as a federal or unitary system is fixed; and (3) to compare the subnational governments’ autonomy in federal systems with that in unitary systems without assuming that the former is higher than the latter.

In this dissertation, I compare Mexico, a federal system, with China, a unitary system, to identify the common political causes that explain the economic (de)centralization policies. [Riker \(1969\)](#) once pointed out that constitutional unitary government was at least as likely to have local autonomy as was constitutional federalism. In order to understand local autonomy, Riker emphasized that it was not enough to examine only the constitution, but to examine political culture. In the case of Mexico, its federal status does not guarantee higher economic autonomy for the subnational governments. In particular, we observe two waves of fiscal centralization from the 1930s to 1950s and in the 1970s and 1980s ([Díaz-Cayeros, 2006](#), pp. 6–7). On the other hand, in the unitary China, instead of a centralization trend, we observe waves of economic decentralization in the 1950s, 1960s and 1980s. I concur with Riker that constitutional federalism does not give us much leverage to explain these trends and we need to identify the political causes for subnational autonomy beyond the constitution. Because of its generalizability, the concept of “decentralization” allows us to pool federal and unitary systems together and identify such causes.

I choose *economic* decentralization as the outcome of interest because (1) it is the core political economy variable that scholars have repeatedly identify as influencing economic outcomes; and (2) it is both general enough to describe experiences in different contexts and specific enough to be treated as a phenomenon that can be explained.

Economic decentralization, as defined earlier, include fiscal resources decentralization, funded administrative decentralization, and administration of state-owned enterprises decentralization, etc. The early literature on fiscal federalism first theorizes how fiscal and administrative decentralization affect economic outcomes. For instance, [Tiebout \(1956\)](#) and [Oates \(1972\)](#) contend that fiscal and administrative decentralization allow efficient allocation

of public goods.

In the 1990s, a significant number of countries which previously pursued state-led development shifted to market-oriented development strategies. Related to the historical background, there was a burst of literature that emphasized the economic and fiscal aspect of the decentralization process (Weingast, 1995; Bird, Ebel and Wallich, 1995; Rodden, 2006). In addition to public goods provision, the more recent literature also studies whether and under what conditions economic and fiscal decentralization fosters economic growth and macroeconomic stability.²

Thus, the mainstream literature in the field of intergovernmental relations views economic decentralization as an important factor that has implications for economic outcomes.

I adopt economic decentralization instead of fiscal decentralization or administrative decentralization, which are more commonly used in the literature (Manor, 1999; Montero and Samuels, 2004; Falleti, 2010), mainly because economic decentralization is more general and allows me to compare experiences in different country and historical contexts.

Neither fiscal nor administrative decentralization, as they are defined in the literature, captures the important aspect of decentralization in command economies, which is to move the ownership as well as administration of state-owned enterprises from the national government to subnational governments. However, given that such a decentralization process grants subnational governments more economic resources and autonomy, it shares similarities with fiscal resources and funded administrative decentralization. By classifying these policies that grant subnational governments more economic resources and autonomy as economic decentralization, I can explore the common political considerations of such policies.

1.3.3 Reasons for Economic Decentralization

Explanations for economic decentralization mostly fall into two camps: socioeconomic explanations and political institutionalist explanations. Economists often theorize how socioe-

²Weingast (2009) called the literature in this period the Second Generation Fiscal Federalism. Compared to the First Generation Fiscal Federalism literature, the recent wave of literature is more empirically based. There has been a heated and lasting debate with regard to whether fiscal decentralization is good or bad for economic growth (Weingast, 1995; Rodden and Rose-Ackerman, 1997; Wibbels, 2005; Cai and Treisman, 2006).

conomic factors influence economic decentralization levels. These factors include a country’s geographic and population sizes, ethno-linguistic diversity, and urban domination, etc. These theories are often functionalist in nature: they generally argue that a country’s socioeconomic factors determine an optimal level of economic decentralization for this country, at which level economic efficiency is maximized. They assume that countries would settle at this optimal level. As for *how* a country reaches this level of economic decentralization, this approach leaves it in a black box.

The political institutionalist approach complements the socioeconomic explanations. Using this approach, political scientists emphasize the political process that lead to the economic decentralization policies. These scholars identify certain institutions that are more conducive to economic decentralization policies, including democratic institutions, subnational elections, decentralized party structures, and representation of subnational government officials in the national policy-making institutions, etc. However, the majority of these approaches emphasize the bottom-up pressures for economic decentralization.

The theory presented in this dissertation belongs to the political institutionalist camp, but I adopt a top-down perspective. I theorize that under certain conditions, political centralization is conducive to economic decentralization through enhancing the national government’s trust in the subnational government officials. This explains why certain authoritarian regimes pursue economic decentralization in a top-down manner without strong bottom-up pressures. This theory also sheds light on why some other authoritarian regimes choose to centralize economically despite facing bottom-up pressures for economic decentralization. One potential factor is the national government’s lack of political control over subnational governments.

1.3.3.1 Socioeconomic Reasons According to the mainstream literature, economic development levels increase fiscal decentralization for the following reasons.³ Firstly, as a

³To clarify, in the literature on the socioeconomic causes of fiscal decentralization, the authors often do not distinguish between fiscal revenue decentralization and fiscal expenditure decentralization. On the other hand, as [Falleti \(2010\)](#) pointed out, the political incentives for fiscal revenue decentralization may be distinct from the incentives for expenditure decentralization. I agree with her and incorporate this idea in my conceptualization. But for now, for the purpose of reviewing the current understanding of causes of economic decentralization, I present the findings consistent with the original conceptualization, i.e., to treat both revenue decentralization and expenditure decentralization as fiscal decentralization.

country develops and its per capita income increases, it is often the case that its public expenditure increases disproportionately. The absolute increases in local public expenditure makes it possible for local government to exploit scale economies in local public goods provision ([Arzaghi and Henderson, 2005](#), pp. 1161–1162). From the citizens’ perspective, local governments are now more capable of providing the public goods they increasingly demand, in terms of their variety and quality ([Letelier S., 2005](#), pp. 157–158). Secondly, as a country’s per capita income increases, the labor wages often increase. At the same time, because the services provided by local government are labor-intensive, such as education, health, and police, their costs also increase with the wages. Numerically, this can lead to a higher share of local government expenditure ([Letelier S., 2005](#), pp. 157–158).

Countries with larger geographic areas tend to have higher fiscal decentralization. In larger countries, the average costs of providing public goods and services are lower at the subnational level than at the national level. The “spatial theory” argues that the costs of public goods provision increase as the distance between the receiver and the provider of public goods increases. “More distant hinterland regions may be poorly served by the center, due to higher transportation costs, poor information, and inattention of the center to demands of hinterland regions with different ethnic backgrounds and preferences” ([Arzaghi and Henderson, 2005](#), p. 1162).

Similarly, countries with larger population size also have higher fiscal decentralization, because policy-making requires certain information from the local level and the “informational costs can be expected to increase with population.” “The larger the group, the more difficult it is to sustain meaningful dialogue” between the center and the periphery ([Hooghe and Marks, 2012](#), p. 5).

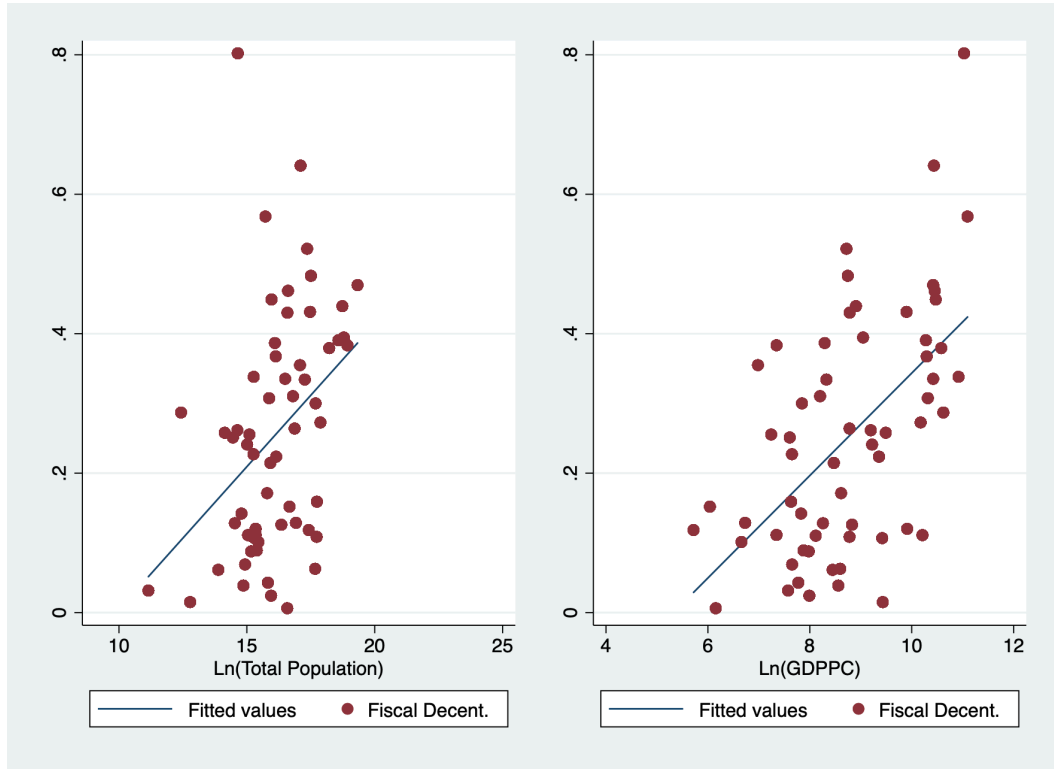
High ethno-linguistic diversity increases fiscal decentralization. Firstly, ethno-linguistic diversity increases the costs of public goods provision ([Arzaghi and Henderson, 2005](#)). Ethnic customs and language barriers can create difficulties for central agencies to provide health and education services. Secondly, in modern democracies, language is an important vehicle for the democratic process. Citizens’ political activities, including formal and informal participation, revolve around the language divides. Thus, institutions, including decentralization and federalism, are results of such a political process and reflect the underlying linguis-

tic structure ([Erk and Koning, 2010](#)). [Erk and Koning \(2010\)](#) find linguistic heterogeneity increases fiscal decentralization in Western advanced democracies.

These socioeconomic theories of fiscal decentralization often emphasize the economic *needs* for a country to have a certain level of fiscal decentralization but do not explain how a country realizes this level of fiscal decentralization. Although scholars such as [Erk and Koning \(2010\)](#) theorize that socioeconomic factors affect fiscal decentralization through political institutions, they often do not trace the political process.

This socioeconomic approach thus leaves the following question unanswered: why countries with similar socioeconomic conditions are dramatically different in their economic decentralization levels.

Figure 1.3. Fiscal Expenditure Decentralization Levels and Socioeconomic Factors (Population Sizes and GDP Per Capita)



Source: the data on fiscal expenditure decentralization levels are drawn from the IMF Fiscal Decentralization Dataset ([International Monetary Fund, 2018](#); [Lledó et al., 2018](#)) and the data on countries' total population and their GDP per capita are from the World Bank Open Data ([World Bank, N.d.](#)).

Figure 1.3 shows the scatterplots of the fiscal expenditure decentralization levels against countries' population sizes and their economic development levels (measured by their GDP

per capita). These two scatterplots indeed show positive correlations between the fiscal decentralization levels and countries' sizes and their GDPPC. However, as the figure also shows, countries with similar socioeconomic conditions have marked differences on their fiscal decentralization levels. This pattern suggests that some large and developed countries do not necessarily have the economic decentralization levels at their supposedly optimal levels, where economic efficiency can be maximized. Then, why do countries with similar socioeconomic conditions have different economic decentralization levels?

1.3.3.2 Institutional Reasons The institutionalist explanations of economic decentralization policies offer a promising approach to understand why countries with similar socioeconomic conditions differ in terms of economic decentralization levels. These institutionalist theories, mostly developed by political scientists, tend to emphasize the bottom-up pressures, i.e., demands from the subnational governments for more economic autonomy. They often view economic decentralization policies as a consequence of a bargaining process.

a. The Bottom-up Perspective

Scholars have found that democratic regimes are correlated with high levels of economic decentralization, because democracies have representative government that give a voice to regional interests ([Arzaghi and Henderson, 2005](#), p. 1158).

Among democracies, scholars argue that decentralized party structure is an important factor determining economic decentralization. Based on Latin American democracies' experience, several studies find that more decentralized party structures imply that subnational government officials have more influence on national legislators, which in turn leads the national legislators to pursue economic decentralization policies ([Willis, Garman and Haggard, 1999](#); [Garman, Haggard and Willis, 2001](#); [Eaton, 2004](#); [Haggard and Webb, 2004](#)).

In addition, some scholars find that democratization process which involves opening up direct elections of subnational government officials also facilitates economic decentralization. The reasons are that (1) such direct elections increase the bargaining power of the subnational governments; and (2) the elections make the subnational governments more accountable to the local citizens, giving the subnational government officials more incentives to demand autonomy ([Beer, 2004](#); [Falleti, 2010](#)). According to [Falleti \(2010, Chapter 5\)](#),

in Brazil the introduction of direct election of governors in 1982 significantly increased the pressure of subnational governments on national government and favored fiscal resources decentralization. In Mexico, decentralization is more likely in the states where elections are more competitive, because electoral competitiveness increases politicians' accountability to local constituents (Beer, 2004).

In authoritarian regimes such as China, Shirk (1993) and Liu et al. (2015) find that the representation of subnational governments in the national policy-making institutions facilitates and sustains economic decentralization policies. Based on the selectorate theory's framework, Shirk views fiscal decentralization policies in the 1980s as an outcome of the central leadership appealing to the members of the selectorate. She defines the selectorate as "the group within a political party that has effective power to choose leaders" (Shirk, 1993, p. 71), referring to the Central Committee, the revolutionary elders, and top military leaders in the 1980s Chinese case (Shirk, 1993, p. 10). The selectorate theory relies on the assumption that the subnational government officials in China prefer more economic autonomy and emphasizes the bottom-up drive for economic decentralization. The main incentive of the national government is the power struggle among the leadership, according to the selectorate theory.

Sharing a similar perspective, Liu et al. (2015) find that the Cultural Revolution resulted in a strong representation of subnational government officials in the Central Committee of the Communist Party of China (CPC). This change led to the shift of power balance among political elites, as the subnational governments gained more power vis-à-vis the central bureaucracy. This political shift helped sustain the economic decentralization policies that began in the 1970s and lasted until the 1990s, when the balance of power among the political elites shifted back towards favoring the central bureaucracy. The assumption here is also that subnational government officials play the deciding role in economic decentralization policies. Thus, this perspective is similar to Shirk's selectorate theory in emphasizing the bottom-up drive for economic decentralization policies.

b. The Top-down Perspective

Compared to the studies that adopt the bottom-up perspective, the size of the literature that adopts the top-down perspective is smaller. Instead of emphasizing the demands of

the subnational governments, these top-down approaches emphasize the incentives of the national government.

To explain the decentralization processes in democracies, O'Neill (2004, 2005) focuses on the ruling party's political, especially electoral incentives. She considers a country as experiencing decentralization only when both political and fiscal decentralization happens. She finds that the national government is more likely to decentralize when the ruling party has strong electoral support at the subnational level but weak support at the national level. The Andes countries' experiences support this hypothesis.

Several studies adopt the delegation framework to understand decentralization. Gerring et al. (2011) study the British colonial rule and the political and economic decentralization levels of modern nation-states. They find that pre-existing institutions, such as "stateness," of the subordinate units, enhance monitoring mechanisms between the principal and agent, and thus facilitates indirect rule for the British empire and both political and economic decentralization for modern nation-states.

McCann (2015) uses the delegation framework to study the decentralization policies in the US. She argues that political ideological affinities between the principal, i.e., the national government, and the agents, i.e., the subnational governments, also facilitates decentralization. Empirically she finds that in the US, members of Congress (the principal), are more likely to decentralize administratively⁴ when their copartisans are the states' governors (one agent), while the national executive (the other agent) is occupied by the opposition party. This is to contend that the principal is more likely to delegate to those agents that share the principal's policy preferences.

Landry (2008) studies the the resilience of the Chinese authoritarian system. He finds that because the national government maintains strong control over personnel, fiscal and economic decentralization in authoritarian China does not lead to the collapse of the regime. Empirically he identifies the main institution of personnel control of the CPC, which is the "One Level Down" policy in place since 1983. He finds that this appointment system works well to incentivize local government cadres to pursue policies consistent with the national

⁴McCann (2015) measures decentralization as to what extent the provisions in a law require the involvement of the national agency. I consider this measure as administrative decentralization.

government's policy goals and thus helps to sustain the regime.

1.4 A DELEGATION THEORY OF ECONOMIC DECENTRALIZATION IN AUTHORITARIAN REGIMES

In this dissertation, I adopt the delegation logic to analyze the economic decentralization problem. The delegation logic allows me to develop a theory that identifies the conditions under which political centralization contributes to economic decentralization policies in authoritarian regimes. The theory is most helpful for understanding why certain authoritarian regimes pursue economic decentralization without strong bottom-up pressure. The details of the theory are discussed in Chapter 2, but the gist of the argument is the following.

The theory assumes that the authoritarian national government ultimately determines whether and how to pursue economic decentralization policies. To make the decision, the national government considers the effects of economic decentralization on its three goals: (1) pursuing economic development, (2) maximizing power in its own hand, and (3) implementing its preferred economic policies.

A high level of political centralization, as an institutional condition, implies that (1) the national government has a strong capacity to reward the subnational governments for implementing the national economic agenda or punish the subnational governments for deviating from the national economic agenda; and (2) the policy preferences of the national government are similar to those of the subnational governments, because the national government can select the subnational officials who share the national government's policy preferences.

These two conditions together further mean a high level of the "deviation threshold," which is a crucial concept for the theory. It is defined as the maximum level of economic decentralization that the national government can grant to the subnational governments, without triggering the subnational governments' policy deviations. The deviation threshold increases with the strength of the reward-punishment mechanism and decreases with the policy preference divergence between the national and subnational governments.

From the subnational governments' perspective, sharing policy preferences with the na-

tional government provides them with the intrinsic motivation to pursue the national economic agenda, and fearing the punishment (or seeking rewards) from the national government adds an external motivation for them to implement the national preferred policies. Thus, a high level of political centralization makes the subnational governments prefer to implement the national economic agenda even when the economic decentralization level is high. Under this condition—the political centralization level is high and thus the deviation threshold is high, the national government expects that the subnational government would implement the national economic agenda after the economic decentralization policies, and therefore, the national government is more willing to pursue the economic decentralization policies.

In the opposite scenario, when the political centralization level is low, the subnational governments have their own independent economic preferences and the national government does not have sufficient tools to reward or punish the subnational governments, the subnational governments would deviate from the national economic agenda even when the economic decentralization level is low. In this case—the political centralization level is low and thus the deviation threshold is low, the national government would be less likely to implement the economic decentralization policies and would rather prefer a highly centralized economic system. However, to successfully centralize the economic resources and authority requires a certain level of political centralization, as the case study chapter on Mexico (Chapter 5) shows. Thus, instead of a linear relationship between political centralization and economic decentralization levels, there could be a U-shaped relationship. When the political centralization level is low, although the national government has incentives to centralize economic resources and authority, it lacks the capacity to achieve the goal of economic centralization. As the political centralization level increases, the national government has both the incentives and capacity to implement the economic centralization policies, which result in a low level of economic decentralization. When the political centralization level is high, the national government no longer needs a centralized economic system to have its preferred policies implemented at the subnational level and therefore we would expect a high economic decentralization level again.

1.4.1 Contribution to the Literature

This top-down theory contributes to the existing theoretical understanding of economic decentralization in the following three ways.

Firstly, this theory incorporates the economists' insights that socioeconomic conditions determine a theoretically optimal level of economic decentralization. In particular, the delegation theory in this dissertation sets one of the goals of the authoritarian national government as pursuing economic development, which refers to maximizing the economic efficiency in the country. The previous institutionalist theories on economic decentralization often focus only on political drives (Shirk, 1993; Garman, Haggard and Willis, 2001; O'Neill, 2005; Liu et al., 2015). Although my theoretical and empirical focus is also the impact of a political institution—the level of political centralization—this delegation theory offers a unifying analytical framework to combine socioeconomic explanations with the institutionalist explanations.

Secondly, the theory can deepen our understanding of economic decentralization in authoritarian regimes. By emphasizing the national government's incentives to pursue the economic decentralization policies from a top-down perspective, I am able to identify how a high level of political centralization can lead to economic decentralization policies. This reverses the expectation based on the previous theories developed in the democratic context, which expect a high level of political centralization leads to a low level of economic decentralization. The theory developed here specifies the conditions under which the national government wants more economic decentralization. I expect it to be more relevant for understanding the economic decentralization dynamics in the authoritarian context, where the subnational governments often lack bargaining power enjoyed by the subnational governments in democracies.

Thirdly, a better understanding of the reasons for economic decentralization can shed light on the outcomes of economic decentralization. The unresolved academic debates in the 1990s and 2000s on whether economic decentralization can bring about good economic performance can potentially be reconciled by a better understanding of the causes of economic decentralization. For instance, economic decentralization as a result of a bargaining pro-

cess and that as a result of a delegation process can have distinct implications for economic performance.

1.5 STRUCTURE OF THE DISSERTATION

Chapter 2 presents a game-theoretical model of economic decentralization process in authoritarian regime. The theory identifies two mechanisms through which political centralization leads to economic decentralization: (1) strengthening the reward-punishment mechanism which incentivizes the subnational government officials to follow the national government's policy directives; and (2) reducing the policy preference divergence between the national and subnational governments. Based on the model, I identify the conditions under which political centralization facilitates economic decentralization.

Chapters 3 to 5 test the model's main theoretical expectation with two historical cases, China from 1949 to 1962 and Mexico from 1917 to 1948. Chapter 3 is an introduction to the case studies in Chapters 4 and 5. Firstly, Chapter 3 explains the case selection logic. These two historical cases satisfy the criteria of the method of difference design. They shared similarities in the theoretically-relevant socioeconomic and political conditions, but differed in their levels of political centralization (the causes) and the economic (de)centralization policies (the outcomes). China from 1949 to 1962 was much more politically centralized than Mexico from 1917 to 1948. In the meanwhile, China experienced its first episode of economic decentralization during the Great Leap Forward since 1958; while Mexico's federal government consistently attempted to centralize the fiscal authority from 1917 to 1948. Confirming the causality between political centralization levels and the economic (de)centralization policies in these two cases would validate the theoretical expectation that the levels of political centralization positively affect the economic decentralization policies in these regimes. In addition, Chapter 3 also explains the rationale for using the theory-testing process-tracing method to study these two cases. Specifically, using the process-tracing method within each case tests whether the components identified in the theoretical model functioned as expected in their respective historical contexts. The key advantage of the

process-tracing method is to uncover the causal mechanism between the levels of political centralization and the economic (de)centralization policies.

Chapter 4 tests the causal mechanism between a high level of political centralization and the economic decentralization policies during the Great Leap Forward in China from 1949 to 1962. I find supportive evidence for all the causal links identified in the theory. Due to the highly centralized nature of the ruling party, the CPC, which was established several decades before the regime establishment, the postrevolutionary regime acquired a highly centralized political structure. The central government, through the CPC, had strong control over the careers of the local government officials. Consequently, the central government was able to appoint those officials who shared the central leadership's economic policy preferences and replace the independent-minded officials with the like-minded ones, and greatly reduced the policy preference divergence between the central and local governments. In addition, the centralized political system also increased the local officials' career incentives to pursue the central government's economic policy agenda, as they feared the career punishments imposed by the center. These two factors together constituted high deviation thresholds for the local officials. The local officials' adherence to the central government's economic policy agenda and the centralized political institution further strengthened the central leadership's trust in the local officials. Conditional on the hospitable socioeconomic conditions prior to the Great Leap Forward, the central government initiated the economic decentralization policies. Also consistent with the theoretical expectation, the local officials continued to pursue the central government's economic policy agenda, despite the economic decentralization policies and despite the disastrous costs of pursuing the central policy agenda on the localities.

Chapter 5 tests the causal mechanism between a high level of political decentralization and the fiscal centralization policies in postrevolutionary Mexico from 1917 to 1948. For the Mexican case, I find supportive evidence for all the causal links except that different from the expectation, the state governments still deviated from the federal government's fiscal policy agenda after the fiscal centralization policies from the 1920s to 1948. Unlike the Chinese case, the Mexican ruling party, the PRI, was established after the regime establishment. Without a centralized political organization that led the revolution, Mexico's postrevolutionary regime was regionally fragmented. The regions were dominated by strongmen, over whom the federal

government had very weak political control. Consequently, the state governors often had their independent economic policy preferences, different from the federal government's. In addition, the state governors often had their own political bases and it was more difficult for the federal government to remove the state governors than the Chinese case. As a result, the state governors had only weak career incentives to pursue the federal government's economic policy agenda. The independent policy preferences and the weak career incentives together caused the state governors to have low deviation thresholds. The state governors indeed deviated from the federal government's economic and fiscal policy agenda. The federal government, on the other hand, was frustrated with its inability to implement its preferred economic policies, particularly to establish a common national market. As a result, the federal government consistently attempted to centralize the fiscal authority from the 1920s to the 1940s. Although I find that after the fiscal centralization policies, the state governments continued to deviate from the federal government's policy agenda, I argue that it was resulted from the federal government's incapacity to achieve a higher level of fiscal centralization, rather than an intentional attempt on the federal government's part to allow the states' policy deviations.

Chapter 6 incorporates this new theory on the economic decentralization policies in authoritarian regimes with the previous literature on democracies and tests whether the political centralization's effects on economic decentralization are negative in democracies but positive in autocracies. As mentioned earlier, the effects of political centralization are expected to be different across regime types, mainly because the democratic institutions allow more bottom-up demands to be represented and thus the bargaining logic is more applicable, while in autocracies, the top-down policymaking process is more prevalent and thus the delegation logic is more relevant. Using the within-between random effects model to analyze a sample of 59 countries over the period from 1972 to 2016, this chapter offers supportive evidence for the different effects of political centralization, conditional on countries' autocratic levels. In addition, this chapter also provides some evidence for the U-shaped relationship between political centralization and economic decentralization levels in autocratic regimes. Also consistent with the theoretical expectation, the results show that the effects of political centralization are stronger in the large and more developed countries.

In Chapter 7, I conclude that in autocracies, a high level of political centralization can facilitate the economic decentralization process by increasing the national government's trust in the subnational officials, so that the national government anticipates that the subnational governments would implement the national economic agenda after economic decentralization. On the other hand, a low level of political centralization can disincentivize the national government from pursuing economic decentralization policies and make it prefer a high level of economic centralization. The case study evidence confirms the causal mechanisms and the results from the statistical analyses support the positive correlations between political centralization and economic decentralization levels. This theory itself can help us better understand the economic decentralization logic in autocracies. Combined with the previous literature, this theory can help shed light on and refine the theoretical expectation that democracies tend to have higher economic decentralization levels than autocracies. Specifically, not all autocracies have centralized economies. But the top-down policymaking process in autocracies can indeed limit the level of economic decentralization, compared to the bottom-up process more prevalent in democracies. Moreover, this theory can also potentially contribute to the understanding of how regime types influence countries' economic performance, because the economic decentralization level is widely considered as a crucial factor determining the economic performance of a country and regime types affect economic decentralization levels. Finally, this chapter concludes with proposals for future research to deepen our understanding of economic decentralization.

2.0 A GAME-THEORETICAL MODEL OF ECONOMIC DECENTRALIZATION

2.1 INTRODUCTION

In this chapter, I develop a game-theoretical model to analyze the top-down economic decentralization processes in authoritarian regimes. I theorize that the level of political centralization affects a national government’s willingness to implement economic decentralization policies via two mechanisms: (1) with a high level of political centralization, the national government maintains a strong reward-punishment mechanism that can incentivize the subnational governments to implement the national economic policy agenda; and (2) a high level of political centralization can reduce the policy preference divergence between the national and subnational governments. Both mechanisms make the subnational governments more willing to pursue the national economic policy goals. This in turn increases the national government’s incentives to decentralize economic resources and authority.

The next three sections set up the model. Section 2.2 and Section 2.3 discuss the theoretical justifications for the national and subnational governments’ utility functions. Section 2.4 presents the game-theoretical model that formalizes the interaction between the national and subnational governments. In Section 2.5, I analyze the subgame perfect nash equilibria (SPNE). Firstly, I discuss one critical concept of this model, the subnational government’s “deviation threshold.” It is defined as the maximum level of economic decentralization that the national government can grant without triggering the subnational government’s policy deviations. Secondly, I analyze how political centralization affects economic decentralization levels through changing the two determinants of the deviation threshold: the strength of the reward-punishment mechanism and the policy preference divergence between the national

and subnational governments. The discussion focuses on one type of the national government, the ideological developmental type. This national government type is the focus of the following three case study chapters. Finally, Section 2.6 summarizes the results of this chapter and discusses the model's limitations and its potential modifications.

2.2 CONSIDERATIONS OF THE NATIONAL GOVERNMENT

In this section, I discuss the considerations of the national government. These considerations form the bases of the national government's utility function discussed in Section 2.4.

When deciding whether to pursue economic decentralization, the national government needs to weigh the impacts of economic decentralization on the following three aspects: (1) maximizing its own economic resources and authority; (2) maximizing the overall economic efficiency in this country; and (3) implementing its preferred economic policies.¹

Authoritarian national governments apparently pursue many different goals, for instance, regime stability, national security, international prestige, economic development, and for many regimes rents for government officials, etc. For my theory, I only focus on the three considerations listed above, because economic decentralization policies have direct implications for these three considerations.

It is important to note that considering these three aspects does not mean all authoritarian national governments value these to the same degree. Rather, the theory assumes that all authoritarian national governments value them but the rank order of their importance can

¹I focus on the implementation of the economic policies, because economic decentralization, defined as granting more economic autonomy to the subnational governments in this dissertation, directly affects the economic policies at the subnational levels. For instance, allowing the subnational governments to design their local taxes give the subnational governments more autonomy to decide which economic sectors to foster. Similarly, transferring the management authority of state-owned enterprises to the subnational levels directly increase the subnational governments' economic policymaking authority. On the other hand, because economic resources are fundamental to a government's functions, economic decentralization can have implications for the policy implementation in other policy areas, broader than the economic sphere. However, I choose to limit the theory's scope to the implementation of the economic policies in this dissertation, because economic decentralization's link with the implementation of non-economic policies is less direct and more nuanced than its link with the implementation of the economic policies. It is likely that the logic identified for the economic policies can be applied to other policy areas and scholars can explore this logic further in the future.

change across regimes and within a regime over time. This variation is one of the sources of the different economic decentralization levels across regimes and within a regime over time.

2.2.1 Maximizing Economic Resources and Authority

Economic decentralization policies directly reduce the national government's relative economic resources and authority, which the national governments prefer to maximize. Thus, the authoritarian national governments are expected to oppose economic decentralization policies.

According to the definition in Chapter 1, economic decentralization policies grant more economic autonomy to the subnational governments. This implies that the national government loses a share of its own economic resources and autonomy.

The recent institutionalist literature on the political incentives of economic decentralization contends that each level of government prefers to control economic resources and authority at its own level. [Falleti \(2010\)](#) argues that the national government, including the national executive, national bureaucracies, and national unions, are “generally opposed to decentralization because these reforms threaten the bases of their power and, in some cases, their own existence” (2010, pp. 42–44). Subnational government officials, such as governors and mayors, “on the other hand, will almost invariably favor decentralization . . . of fiscal resources” (2010, p. 44).

[Willis, Garman and Haggard \(1999\)](#) point out that the national executive has two conflicting tendencies. On the one hand, the national executive prefers economic efficiency gains derived from economic decentralization policies. On the other hand, the national executive also wants to control economic resources in his/her own hands for two reasons. Firstly, with centralized economic authority and resources, the national executive is able to redistribute across different regions. His/her ability to redistribute allows the national executive to promote economic equality among regions and/or exchange government expenditures for political, especially electoral support. Secondly, centralized economic authority and resources also ensure that the objectives of the national executive are carried out, which is more difficult under an economically decentralized system, due to the informational asymmetries between

the national government (the principal) and the subnational government (the agent).

Although [Willis, Garman and Haggard](#) point out the conflicting tendencies of the national government, in their study they do not theorize when the decentralization tendency outweighs the centralization tendency or vice versa. Instead, they claim it is often the case that the president is “more inclined to transfer responsibilities than the resources” ([1999](#), p. 209). They build their theory that decentralized party structure is conducive to fiscal decentralization policies based on this assumption that each level of government prefers to maximize fiscal resources at its own level.

The national government values maximizing its own control over economic resources and autonomy, which are the bases of their power ([Falleti, 2010](#)) and enable the national executive to redistribute among different regions for benevolent or political reasons ([Willis, Garman and Haggard, 1999](#)). Thus, given that economic decentralization reduces the national governments’ economic resources and authority, the national governments have incentives to oppose such policies.

2.2.2 Maximizing Economic Efficiency

Economic decentralization policies can potentially increase economic efficiency in a country. Authoritarian national governments value good economic performance and thus have incentives to pursue economic decentralization based on this consideration.

In the socioeconomic causes literature summarized in [Section 1.3.3.1](#), there is a consensus that socioeconomic conditions of a country, including its economic development level, population size, area size, and ethnic-linguistic heterogeneity, determine an optimal level of economic decentralization at which economic efficiency is maximized. To state it in a different way, economic decentralization policies affect economic efficiency in a country. Relatively economically centralized systems can potentially increase economic efficiency by adopting economic decentralization policies. Such potential gains include more efficient public goods provisions ([Tiebout, 1956](#); [Oates, 1972](#); [Arzaghi and Henderson, 2005](#)) as well as better economic growth performance ([Weingast, 1995](#)).

As [Willis, Garman and Haggard \(1999\)](#) point out, the national executive can claim cred-

its for efficiency gains through economic decentralization policies. In democracies, regular elections provide opportunities for voters to reward the incumbents for good economic performance, which creates incentives for the national government to value economic efficiency (Powell Jr and Whitten, 1993; Anderson, 2000; Duch, 2007).

In spite of lacking free and fair elections, authoritarian national governments do have incentives to value economic efficiency gains.

Firstly, since the industrial revolution, modern states are increasingly situated in a competitive global environment. These states need to provide domestic sociopolitical order by being autonomous from foreign intervention (Skocpol, 1985, p. 8). This requires states to develop economically and stay competitive in the international arena. Thus, modern authoritarian regimes have incentives to develop economically for security reason.

Secondly, authoritarian regimes value economic efficiency gains for legitimacy reasons. Modern authoritarian regimes not only lack the rational-legal institutions which legitimize democratic governments, such as competitive elections; but most of them as modern republics can no longer obtain legitimacy on the “traditional” grounds, such as through the concept of divine right of the kings. Therefore, many modern authoritarian regimes often rely on good economic performance to win legitimacy (White, 1986).

In addition to the above theoretical arguments, empirical case studies on modern authoritarian regimes also confirm that the national governments do indeed value economic development.

For instance, Magaloni (2006) finds that in Mexico’s authoritarian period, the hegemonic party the Institutional Revolutionary Party (PRI)² has strong incentives to follow economic policies that promote economic growth, although it also has incentives to keep a solid base poor so that these people are trapped by the party’s clientelistic practices (2006, pp. 72–73). In China, the Communist Party’s pursuit of economic development is also widely recognized (Riskin, 1987; Yabuki and Harner, 1999; Landry, 2008), although this enthusiasm does not guarantee success and in fact occasionally led to economic disasters, such as the Great Leap Forward.

In sum, provided that economic decentralization policies improve economic efficiency at

²Its acronym is based on its name in Spanish, *Partido Revolucionario Institucional*.

the national level and that authoritarian national governments value good economic performance, the national governments are expected to support economic decentralization policies.

2.2.3 Economic Policy Implementation

Economic decentralization can be viewed as a typical delegation process. By transferring economic resources and authority to the subnational governments, authoritarian national governments (the principal) also delegate the implementation of certain economic policies to the subnational governments (the agent). As a delegation process, economic decentralization creates agency loss for the authoritarian national governments, if the subnational governments do not implement economic policies in the way that the national governments desire. For instance, when the national government prefers socialist economic policies and the subnational government prefers capitalist economic policies, economic decentralization gives the subnational government the opportunity to implement their own preferred policies that may go against the national agenda. Thus, authoritarian national governments are expected to oppose economic decentralization policies.

Authoritarian national governments not only value economic outcomes, such as efficiency and growth, but also value the means to achieve those goals, including the economic policies and their implementation. In particular, economic decentralization policies can potentially influence the following two aspects of economic policy implementation: (1) the policy content; and (2) the priority level which the governments attach to these policies.

In terms of the policy content, nationalizing private enterprises is an example of implementing state-led economic policies; while attracting foreign direct investment is an example of implementing market-oriented economic policies. Economic decentralization grants more autonomy to the subnational governments which enable them to pursue economic policies that the national government may oppose.

In addition, economic decentralization can also affect economic policy implementation in a subtler way by changing the policy priority. Governance involves capitalizing on a limited government budget to pursue a comprehensive set of policy goals. Prioritization is therefore key to the success, failure, and progress of the specific economic policies. By

granting economic resources and authority to subnational governments, the authoritarian national government also leaves more space for the subnational governments to determine the priority of different economic policies.

One common scenario in which authoritarian national governments value economic policy implementation is when they are driven by strong ideologies. In the 1960s and 1970s, the military juntas in several Latin American countries preferred economic policies that transformed their countries into modern capitalist states because of the military's neoliberal ideology ([O'Donnell, 1988](#)). In the communist regimes, such as the Soviet Union and China, the national governments pursued nationalization and collectivization to build the command economies due to the communist ideology.

However, having a strong ideology is sufficient for the national government to value pursuing a certain economic policy but it is not a necessary condition. It is possible that an authoritarian national government may value policy implementation even when they do not have a strong ideology, such as for the purpose of maximizing the ruler's own personal wealth or sustaining the regime which relies heavily on a certain economic policy, etc. In the Mexican case discussed in [Chapter 5](#), the national administrations highly valued the establishment of a common national market over the years, despite their lack of a strong ideology.

Economic decentralization policies can result in agency loss in the following two ways. Firstly, if the subnational governments have different ideological leanings as the national government and they are also strongly driven by their ideologies, they are expected either not to implement the economic policies the national government prefers or to give such policies low priority.

Secondly, subnational government officials rely on a different constituency and thus have a different territorial interest from the national government officials ([Falleti, 2010](#)). Even without strong ideological drives, subnational government officials may pursue policies that are appealing to their own constituency, instead of following the national government's directives. In the Chinese context, [Zhang and Liu \(2016\)](#) find that in Zhejiang Province after 1949, those county government officials who did not have strong political connections with the central leadership relied on the grassroots constituencies for political survival, including

township or urban district level officials or merchants. The local officials' incentives in turn led to economic policies that protected property rights and allowed the local private sector to prosper. These policies were inconsistent with the central policy agenda at the time. Their study shows that even in authoritarian contexts, subnational government officials are also accountable to a subnational constituency that is different from the national government, giving them incentives to implement economic policies contradicting the national government's preferences.

In sum, economic decentralization as a delegation process grants the subnational governments autonomy to implement economic policies, which can go against the national government's policy preferences. Authoritarian national governments are expected to oppose economic decentralization policies due to the potential agency loss.

To conclude, economic decentralization has implications for three aspects that the authoritarian national governments value: maximizing their economic resources and authority, maximizing economic efficiency in the country, and implementing their preferred economic policies. Among these three aspects, the authoritarian national governments only prefer economic decentralization policies because they can potentially increase economic efficiency, while these policies are viewed negatively because they can reduce the national governments' economic resources and authority, and decrease the national governments' ability to implement their preferred policies.

2.3 CONSIDERATIONS OF THE SUBNATIONAL GOVERNMENT

In this section, I discuss the considerations of the subnational government, which form the bases of the subnational government's utility function discussed in Section 2.4.

The existing bottom-up approach views economic decentralization as a bargaining process, where the subnational governments directly influence the economic decentralization policies with their political power. They participate in the policy-making process of economic decentralization either themselves or via other political actors who represent them, such as the national legislators.

Different from the previous bottom-up approach, the top-down approach here focuses on the indirect effect of subnational governments on the economic decentralization policies. Specifically, this approach examines how the subnational government's decision on whether to implement the national governments' preferred economic policies affects the national government's incentives to pursue the economic decentralization policies.

To make the decision of whether to implement the national governments' preferred economic policies, the subnational governments need to weigh the potential benefits and costs. If they follow the national governments' directives, they cannot implement their own preferred economic policies, but they may be rewarded for their loyal behavior. On the other hand, if they deviate from the national governments' policy preferences, the subnational governments can pursue their own policy agenda but may receive punishments imposed by the national governments.

2.3.1 Economic Policy Preferences

As discussed in Section 2.2.3, the subnational governments can have their own economic policy preferences that are different from the national governments'. Firstly, the subnational governments may be driven by different ideologies than the national governments. Secondly, the subnational governments rely on a different constituency which may lead them to prefer a different economic policy agenda from the national government's agenda (Falleti, 2010; Zhang and Liu, 2016).

Thus, when considering whether to pursue the national governments' economic policy agenda, they need to evaluate the discrepancy between their own preferences and the national governments' preferences. The larger the discrepancy is, the more opportunity costs the subnational governments incur when they pursue the national governments' preferred economic policies.

The level of political centralization, defined as the center's control over subnational government officials' career in Chapter 1, affects the discrepancy between the national and subnational governments' policy preferences. To clarify, the model developed in this dissertation assumes the level of political centralization to be exogenous. It analyzes how

political centralization levels affect the national government's incentives to pursue economic decentralization policies.

The authoritarian national governments, which appoint the subnational government officials, are more likely to have subnational government officials that share their economic policy preferences, than those in countries where subnational government officials are elected for two reasons. Firstly, the national governments that appoint subnational government officials have more leverage to ensure that the subnational government officials share the same party labels and ideologies as themselves. Secondly, compared to local elections, appointment process reduces the accountability of the subnational officials to the local constituency, which may drive the subnational governments to pursue a different economic policy agenda from the national one.

Thus, in a highly politically centralized regime, it is expected that there is a smaller divergence between the national and the subnational governments' economic policy preferences. This means that the subnational governments tend to have lower opportunity costs for following the national government's policy directives.

2.3.2 Rewards and Punishments

In addition to their own economic policy preferences, the subnational governments also need to consider the rewards and punishments they may receive conditional on whether they follow the national government's policy agenda.

If the subnational government officials implement the national government's preferred economic policies, they may get rewards from the national government. If they on the other hand do not follow the national government's economic policy directives, the national government may punish them. The extent to which the national government can reward or punish the subnational government officials also depends on the political centralization level.

In an authoritarian regime with a high level of political centralization, the national government is more capable and likely to reward or punish the subnational government officials for implementing or deviating from the national government's preferred economic policies.

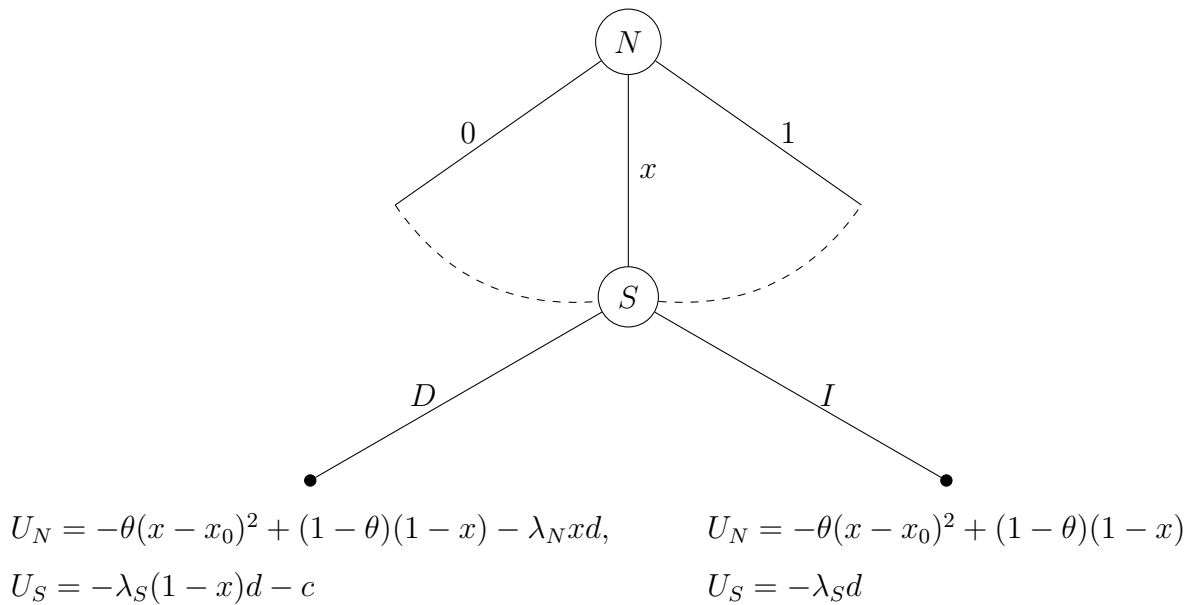
In particular, high political centralization implies strong control of the national government over subnational government officials' career. In a highly politically centralized regime, the national government can punish the subnational government officials by demoting them or removing them from office if they do not implement the national government's preferred economic policies; and the national government can reward the subnational government officials by promoting them if they implement the national government's preferred economic policies. On the other hand, in a regime where political centralization is low, the national government cannot control the career of the subnational government officials and thus has fewer tools to reward or punish the subnational government officials.

Thus, the national government in a highly centralized political regime is expected to have more tools to reward and punish the subnational government officials.

2.4 A GAME-THEORETICAL MODEL

In this section, I present a game-theoretical model to analyze the top-down decision of economic decentralization in authoritarian regimes. The game tree is shown in Figure 2.1.

Figure 2.1. A Model of Economic Decentralization



In this game, there are two players, the national government (N) and the subnational government (S). The national government first determines the economic decentralization level, i.e., the share of economic resources and authority it would like the subnational government to have, denoted as x , where $x \in [0, 1]$.³ The economic decentralization level set by the national government, x , is the level of economic autonomy of the subnational government.

The subnational government then decides whether or not to implement economic policies consistent with the national government's policy agenda, using its share of economic resources and authority, i.e., x . In Figure 2.1, I represents that the subnational government implements the national government's policy agenda, and D denotes that the subnational government deviates from the national government's agenda and implements its own preferred economic policies.

2.4.1 National Government's Utility Functions

The utility function for the national government (N), when N decides x and the subnational government (S) deviates from N 's preferred economic policies is

$$\begin{aligned} & \textit{National Government's Utility Function for } (x, D) \\ U_N(x, D) &= -\theta(x - x_0)^2 + (1 - \theta)(1 - x) - \lambda_N x d, \end{aligned} \quad (2.1)$$

where $x_0 \in (0, 1)$ is the optimal economic decentralization level dictated by the socio-economic conditions; $\theta \in (0, 1)$ is a weighting parameter denoting the relative importance of economic efficiency vis-à-vis maximizing economic power for the authoritarian national government; $\lambda_N > 0$ is a weighting parameter denoting the relative importance of the implementation of national government's preferred economic policies for the national government; and $d > 0$ denotes the difference between the national government's policy preferences and the subnational government's policy preferences.

This utility function is based on the national government's considerations discussed in Section 2.2. This model assumes that the decision on economic decentralization affects three

³To clarify, x in this model describes the authoritarian national government's preferred level of economic decentralization. To understand the reasons for economic decentralization policies, it is important to identify x , which is the target of the economic decentralization policies.

aspects that the national government values: the overall economic efficiency in the country, the share of economic resources and authority controlled by the national government, and whether the national government's policy agenda is implemented.

In Equation 2.1, given x level of economic decentralization, $-\theta(x - x_0)^2$ is the utility that the national government obtains from economic efficiency, $(1 - \theta)(1 - x)$ is the national government's utility from controlling economic resources and authority, and $-\lambda_N x d$ is the national government's utility loss due to the subnational government deviating from the national government's policy agenda.

Firstly, $-\theta(x - x_0)^2$ builds on the literature on the socioeconomic causes of economic decentralization. According to this literature, a country's socioeconomic conditions, such as its geographic and population sizes and ethnic heterogeneity, determine an optimal level of economic decentralization (x_0). It is the optimal level in the sense that at this level the country's economic efficiency is maximized. This inverted-U shaped utility set-up, $-\theta(x - x_0)^2$, is based on this literature. In particular, the overall economic efficiency of a country is represented by $-(x - x_0)^2$. It is maximized when the real economic decentralization level (x) is equal to the optimal economic decentralization level (x_0). As the real economic decentralization level (x) moves further away from the optimal level (x_0), the overall economic efficiency decreases. Because $\theta > 0$, the national government's utility from economic efficiency is also maximized at x_0 and decreases as x moves further away from x_0 .

Secondly, $(1 - \theta)(1 - x)$ is based on the literature that the national government values controlling economic resources and authority. As the economic decentralization level, i.e., the subnational government's share of the economic resources and authority (x), increases, the share controlled by the national government ($1 - x$) decreases. Because $1 - \theta > 0$, the national government's utility from controlling economic resources is a monotonically decreasing function of x .

As a weighting parameter for economic efficiency and economic resources at the national level, $\theta \in (0, 1)$ measures the location of the authoritarian national government on the predatory vs. developmental dimension, using the terminology of [Evans \(1995\)](#). When θ is close to 0 and $1 - \theta$ is close to 1, the national government resembles a predatory government, which hardly values the country's overall economic efficiency but instead prioritizes controlling

economic resources at the national level. On the other hand, when θ is close to 1 and $1 - \theta$ is close to 0, the national government resembles a developmental government, which places high priority on maximizing the country's overall economic efficiency instead of maximizing its own economic resources and authority.

Finally, $-\lambda_N xd$ captures the loss for the national government when the subnational government deviates from the national government's economic policy agenda. This formulation assumes that when the subnational government deviates from the national government's policy agenda, the subnational government uses all its share of economic resources and authority to pursue its own preferred policies. The loss, thus, is determined by two factors. Firstly, it increases with x , i.e., the subnational government's share of economic resources and authority. Secondly, it increases with $d \in (0, 1]$, which is the economic policy preference divergence between the subnational government and the national government.

xd denotes the gap between the national government's ideal policy agenda and the final policy agenda being implemented. This formulation relies on the following assumptions. Different policy agendas, as different combinations of economic policies, are assumed to fall on a one-dimensional interval, $[0, 1]$. I denote the national government's ideal policy agenda as $p_N \in [0, 1]$ and the subnational government's ideal policy agenda as $p_S \in [0, 1]$, where $p_N \neq p_S$. d denotes the difference in economic policy preferences between the national government and subnational government, i.e., $d = |p_N - p_S|$. d falls in the interval $(0, 1]$. The closer p_S is to p_N , the closer d is to 0, while as p_S becomes further away from p_N , d is closer to 1. When subnational government deviates from the national government's policy agenda, it uses its share of economic resources (x) to pursue its own policy agenda, p_S ; while the national government uses its own share of resources ($1 - x$) to pursue its policy agenda, p_N . Thus, the *final* policies being implemented is $p_F = p_N(1 - x) + p_Sx$. The gap between the national government's ideal policy agenda and the final policy agenda is $|p_N - p_F| = |(p_N - p_S)x|$. Thus, the gap between the national government's ideal policy agenda and the final policy agenda, $|p_N - p_F|$, becomes xd . As stated in Section 2.3, a country's level of political centralization can affect d . A highly centralized political system can have a d close to its theoretical minimum ($d \rightarrow 0$), because the national government can and often appoint subnational officials who share their economic policy preferences, and secondly, the

subnational officials also lack the incentives to be accountable to the local constituencies. To the contrary, a highly decentralized political system can have a d close to its theoretical maximum ($d \rightarrow 1$).

$\lambda_N > 0$ is a parameter capturing the extent to which the national government prioritizes the implementation of its preferred economic policies. The national government's utility derived from the policies being implemented is thus $-\lambda_N xd$, which decreases as the gap between the final policies and the national government's preferred economic policies, xd , increases. As emphasized before, the more ideological the national government is, the more weight it places on the economic policy implementation. Thus, I refer to λ_N as the parameter capturing the ideological adherence of the national government. Theoretically, there are other possible reasons beyond the ideological adherence that can motivate the national government to value the implementation of its preferred economic policies. For instance, in the Mexican case discussed in Chapter 5, the Mexican national government valued creating a common national market, although the national elite was often regarded as pragmatic.

Table 2.1. A Typology of the National Governments (NG)

		θ	
		<i>High (Developmental)</i>	<i>Low (Predatory)</i>
λ_N	<i>High (Ideological)</i>	Ideological Developmental NG	Ideological Predatory NG
	<i>Low (Pragmatic)</i>	Pragmatic Developmental NG	Pragmatic Predatory NG

It is worth noting that in this theory, whether the national government is developmental or predatory, i.e., the value of θ , does not determine the priority that the national government assigns to the implementation of its policy agenda, which is the value of λ_N . A developmental national government that prioritizes the overall economic efficiency may or may not value the implementation of the economic policies. There can be ideological developmental national government with high λ_N and high θ or pragmatic developmental national government with low λ_N and high θ . Similarly, a predatory national government that prioritizes controlling the economic resources at the national level may or may not value the economic policy implementation. There can be ideological predatory national government with high λ_N and low θ and pragmatic predatory national government with low λ_N and low θ . I list these four

types of national governments in Table 2.1.

The utility function for the national government (N), when N decides x as the economic decentralization level and the subnational government (S) implements N 's preferred economic policies is

National Government's Utility Function for (x, I)

$$U_N(x, I) = -\theta(x - x_0)^2 + (1 - \theta)(1 - x), \quad (2.2)$$

where $x_0 \in (0, 1)$ and $\theta \in (0, 1)$.

As in $U_N(x, D)$ in Equation 2.1, x_0 represents the optimal economic decentralization level based on the socioeconomic conditions and θ represents the location of the authoritarian national government on the predatory vs. developmental scale. The condition that the subnational government implements the national government's preferred economic policies does not change how the economic decentralization level (x) affects economic efficiency and the national government's control over economic resources and authority, i.e., the first two components in $U_N(x, D)$.

What the condition changes is the third component in $U_N(x, D)$, i.e., $-\lambda_N x d$. In the case that the subnational government implements the national government's policy agenda, the subnational government uses its share of economic resources (x) to implement p_N . The national government uses its own share ($1 - x$) to pursue its preferred policies as well. Thus, there is no gap between the final policy being implemented and the national government's policy agenda. The third term drops and we get the utility function in Equation 2.2.⁴

2.4.2 Subnational Government's Utility Functions

The utility function for the subnational government (S), when the national government decides x and the subnational government deviates from the national government's preferred economic policies is

⁴Specifically, the final policy agenda being implemented, p_F , is equal to $p_N x + p_N(1 - x) = p_N$. The gap between the national government's ideal policy agenda and the final policy agenda implemented is $|p_N - p_F|$, which becomes 0. Given that λ_N denotes the importance of policy implementation for the national government, the national government's utility from policy implementation is $-\lambda_N * |p_N - p_F|$, which is 0 in this case.

Subnational Government's Utility Function for (x, D)

$$U_S(x, D) = -\lambda_S(1 - x)d - c. \quad (2.3)$$

where $d \in (0, 1]$ denotes the difference in economic policy preferences between the national government and the subnational government, same as in the national government's utility functions; $c > 0$ denotes the punishments that the national government imposes on the subnational government's officials; and $\lambda_S > 0$ is a weighting parameter denoting to what extent the subnational government values economic policy implementation.

Firstly, $c > 0$ captures the punishments that the national government imposes on the subnational government for deviating from the national government's preferred economic policies. I specifically focus on the career aspects of the punishments, including demoting and removing the subnational government officials, and reducing their chance of being promoted. As discussed earlier in Section 2.3.2, a high level of political centralization, referring to that the center has a strong control over subnational government officials' career prospects, increases the punishments the national government can impose, i.e., the c term. On the other hand, a low level of political centralization, for instance, when the subnational government officials are locally elected, reduces the national government's ability to punish the subnational government officials.

To note, the model allows the possibility for the national government to reward the subnational government for implementing the national government's preferred economic policies. I group these potential rewards in the c term, as negative punishments. Specifically, when the subnational government does not implement the national government's preferred economic policies, it forgoes the potential rewards. c is the sum of the punishments, such as removal and demotion, and the forgone rewards, such as promotion. Similar to the punishments, the forgone rewards also increase with the level of political centralization, because the national government's strong control over the subnational government officials' career also allows the national government to promote the subnational government officials. Therefore, the level of political centralization positively affects c . Since I group the forgone rewards in the c term, I no longer include a term for rewards in the subnational government's utility function when

it implements the national government's economic policies, i.e., $U_S(x, I)$ in Equation 2.4, to avoid double counting.

Secondly, $-\lambda_S(1-x)d$ is the subnational government's utility derived from the economic policies implemented. Same as the utility setup for the national government, $U_N(x, D)$, I assume that all economic policies fall on the one-dimensional interval $[0, 1]$ and the national government's and the subnational government's ideal policy agendas are $p_N \in [0, 1]$ and $p_S \in [0, 1]$ respectively, where $p_N \neq p_S$. d denotes the policy preference difference between the national government and the subnational government, i.e., $d = |p_N - p_S|$, and $d \in (0, 1]$. When the subnational government deviates from the national government's preferred economic policies, the subnational government uses its share of economic resources and authority (x) to pursue its own policy agenda, p_S . The national government uses its share $(1-x)$ to implement its preferred economic policies, p_N . The final policy agenda being pursued is $p_F = p_N(1-x) + p_Sx$. The gap between the final policy agenda and the subnational government's ideal policy agenda is $|p_S - p_F| = |(p_N - p_S)(1-x)| = (1-x)d$.

λ_S is a weighting parameter, capturing the relative importance of realizing its own economic policies for the subnational government. Thus, the subnational government's utility from the economic policies being implemented is $-\lambda_S(1-x)d$. The utility function decreases, as the gap between the final policy agenda and the subnational government's preferred policy agenda, $(1-x)d$, increases. Like λ_N for the national government, high λ_S is referred to as the ideological adherence of the subnational governments. But again, theoretically there can also be other reasons than ideological adherence that cause the subnational government officials to value the implementation of their preferred economic policies. For example, the local government officials may prefer a specific economic policy because it can help them seek local rents or maximize the local government revenues.

The utility function for the subnational government (S), when the national government decides x and the subnational government implements the national government's preferred economic policies is

Subnational Government's Utility Function for (x, I)

$$U_S(x, I) = -\lambda_S d, \quad (2.4)$$

where $\lambda_S > 0$ and $d \in (0, 1]$.

Firstly, this utility function does not include a separate term for subnational government officials' potential career rewards for implementing the national government's policy agenda. As explained earlier when I discuss the c term in $U_S(x, D)$, the punishments term c includes both the direct punishments and the foregone rewards.

Secondly, $-\lambda_S d$ is the subnational government's utility derived from the economic policies implemented. The difference between this term and $-\lambda_S(1-x)d$ in $U_S(x, D)$ is a result of the change in the final policies being implemented, which leads to a change in the gap between the final policies and the subnational government's preferred policies. Specifically, when the subnational government implements the national government's preferred economic policies, the final policy agenda being implemented is $p_F = p_N$. The gap between the final policy agenda and the subnational government's ideal policy agenda is $|p_S - p_F| = |p_S - p_N| = d$.

λ_S is the same weighting parameter as in $U_S(x, D)$, capturing the relative importance of economic policies for the subnational government. Thus, the subnational government's utility from economic policies is $-\lambda_S d$.

So far, I have presented the game setup and clarified the utility functions for the national and subnational governments in Figure 2.1. Because it is an extensive form game, I analyze the SPNE in the following sections.

2.5 DISCUSSIONS

2.5.1 Subnational Government's "Deviation Threshold"

This section introduces the concept of the subnational government's "deviation threshold," which is a key link in the causal mechanism of how a country's political centralization level affects the national government's incentives to pursue the economic decentralization policies. The deviation threshold derived from the model refers to the maximum level of economic decentralization that the national government can grant the subnational government without triggering policy deviations by the subnational government. This section (2.5.1) shows

how the deviation threshold depends on the political centralization levels and the next section (2.5.2) shows how it affects the national government's calculation when deciding which economic decentralization level it desires.

Using backward induction, provided that the subnational government's utility functions are

$$\begin{cases} U_S(x, D) &= -\lambda_S(1-x)d - c \\ U_S(x, I) &= -\lambda_S d, \end{cases}$$

the subnational government chooses to deviate from the national government's policy agenda, when $U_S(x, D) > U_S(x, I)$. Solving for x , we obtain $x > \frac{c}{\lambda_S d}$. Thus, when the economic decentralization level is below $\frac{c}{\lambda_S d}$, the subnational government implements the national government's policy agenda. When the economic decentralization level exceeds $\frac{c}{\lambda_S d}$, the subnational government deviates from the national government's policy agenda and uses its share of economic resources and authority to implement its own preferred economic policies.

$x_\tau = \frac{c}{\lambda_S d}$ is therefore the economic decentralization threshold, above which the subnational government chooses to deviate from the national government's preferred economic policies. I call x_τ the subnational government's "deviation threshold." Because the deviation threshold is crucial in determining the SPNE outcomes, I discuss its characteristics first in this section.

2.5.1.1 Deviation Threshold and Economic Decentralization Level Why is there a deviation threshold? The deviation threshold exists because (1) the subnational government's utility of policy deviation increases with the economic decentralization level, and (2) the national government punishes the subnational government for policy deviation.

Firstly, as the economic decentralization level increases, the option of deviating from the national government's policy agenda becomes more attractive for the subnational government. This is because with more economic resources and authority, the policy deviation by the subnational government would shift the final policies closer to the subnational government's agenda and thus would generate higher utilities.

When economic decentralization level is low, for instance, when 10% of economic resources are under the subnational government's control, the subnational government has

much less resource to realize its policy goals than when 50% of economic resources are under its control. When the economic decentralization level is 50% and if the subnational government deviates from the national government's policy agenda, the deviation is more rewarding because the subnational government can achieve more with these resources.

On the other hand, the national government imposes a fixed punishment on the subnational government for policy deviation. When the economic decentralization level is below the threshold (x_τ), although higher economic decentralization levels generate a higher utility of policy deviation, the benefits of policy deviation are not worth the punishment and the subnational government does not deviate. When the economic decentralization level is above this threshold (x_τ), the benefits of deviation outweigh the punishment and the subnational government chooses to deviate.

When the deviation threshold is very high, even if the national government decentralizes to a great extent, the subnational government would not choose to deviate. An extreme example is when the deviation threshold is greater than 1, even when the national government chooses to grant the subnational government 100% of economic resources, the subnational government would follow the national government's policy agenda. On the other hand, when the deviation threshold is low, even if the economic decentralization level is not high, the subnational government would still deviate. For instance, if the deviation threshold is 0.1, even when the economic decentralization level is as low as 11%, the subnational government would still use these limited economic resources to pursue their own policy agenda.

2.5.1.2 Determinants of Deviation Threshold The deviation threshold increases with the relative strength of the reward-punishment mechanism ($\frac{c}{\lambda_S}$), holding the policy preference divergence (d) constant. It decreases with the policy preference divergence (d), holding $\frac{c}{\lambda_S}$ constant.

$\frac{c}{\lambda_S}$ reflects the relative strength of the reward-punishment mechanism. It is a ratio of the potential punishment received by the subnational government for policy deviation over the importance the subnational government attaches to realizing its own policy agenda. If the punishment term increases at the same rate as the importance of policy implementation for the subnational government, the relative strength of the reward-punishment mechanism stays

the same. It is only when the ratio increases, I consider the reward-punishment mechanism becomes relatively stronger.

It is often the case that a high level of political centralization implies a strong reward-punishment mechanism. By increasing the national government's political control over subnational government's personnel, political centralization not only increases the potential punishment it can impose on the subnational government for the latter's policy deviation through demoting or removing the officials, but also reduces the priority the subnational government attaches to pursuing its preferred economic policies, because now the subnational government officials are more accountable to the national government instead of their local constituencies.

Theoretically it is possible that political centralization is accompanied by a weakening of the reward-punishment mechanism. The definition of political centralization implies that there is an increase in c . If for some exogenous reason the subnational government suddenly cares about pursuing a certain economic policy to a great extent, although political centralization increases the punishment, the reward-punishment mechanism still weakens.

Figure 2.2. Deviation Threshold and the Relative Strength of the Reward-Punishment Mechanism

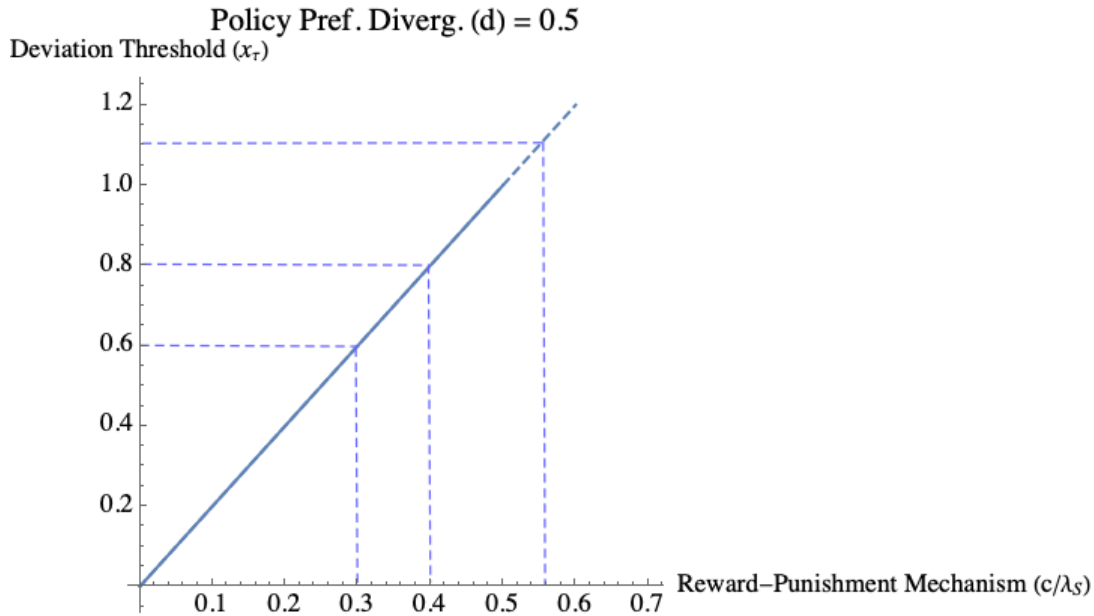
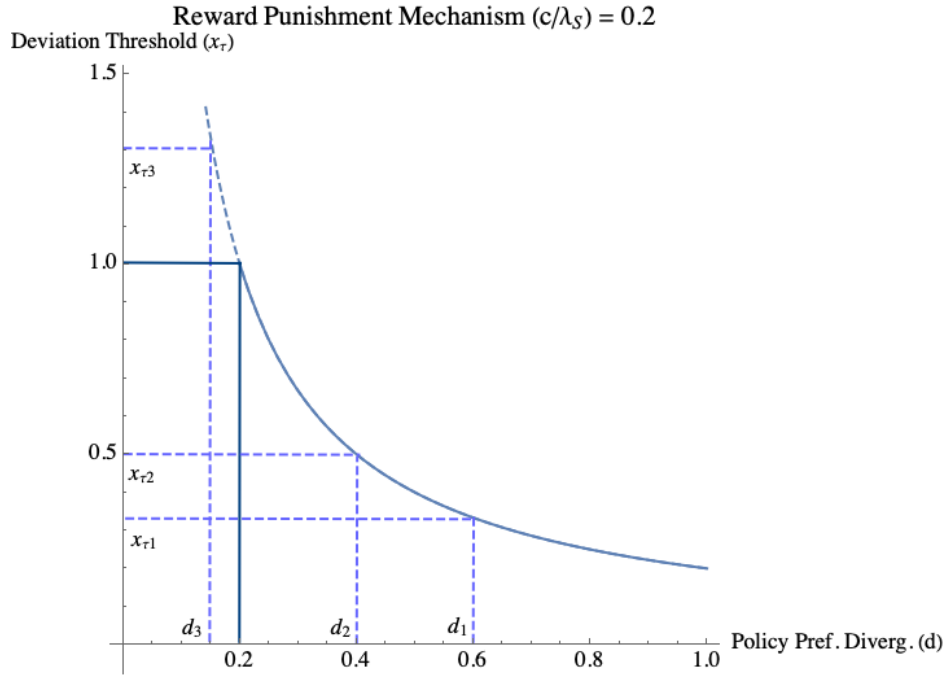


Figure 2.2 shows the deviation threshold as a function of the relative strength of the reward-punishment mechanism, when $d = 0.5$. As the reward-punishment mechanism pa-

parameter $(\frac{c}{\lambda_S})$ increases from 0.3 to 0.4, the deviation threshold increases from 0.6 to 0.8, and the subnational government becomes less likely to deviate from the national government's policy agenda.⁵ As $\frac{c}{\lambda_S}$ continues to increase from 0.4 to 0.6, the deviation threshold continues to increase to 1.2, greater than 1. In this case, regardless of the economic decentralization levels, the subnational government never deviates from the national government's policy agenda, because the economic decentralization level is always less than the deviation threshold. Holding the policy preference divergence term constant, there always exists a theoretical value of $\frac{c}{\lambda_S}$, so that the deviation threshold is greater than 1 and the subnational government always implements the national government's policy agenda.⁶

Because a higher political centralization level implies a stronger reward-punishment mechanism in most cases, the subnational governments in such a system also have a lower deviation threshold, if we hold the policy preference divergence term (d) constant.

Figure 2.3. Deviation Threshold Depends on the Policy Preference Divergence



In the meanwhile, holding the reward-punishment mechanism $(\frac{c}{\lambda_S})$ constant, the deviation threshold is a monotonically decreasing function of the policy preference divergence

⁵Deviation is *less likely* in the sense that as the deviation threshold increases, there is an increasing range of economic decentralization levels within which the subnational government chooses to pursue the national government's agenda.

⁶For any $d_0 \in (0, 1]$, there always exists a pair of c and λ_S , so that $\frac{c}{\lambda_S d_0} > 1$.

between the two levels of governments (d). Figure 2.3 shows the relationship between the deviation threshold and the policy preference divergence, when $\frac{c}{\lambda_S} = 0.2$.⁷ As the policy preference divergence term (d) decreases from 0.6 to 0.4, the deviation threshold increases from 0.33 to 0.5. This means that as the policy preferences between the subnational government and the national government become more similar, the subnational government becomes less likely to deviate from the national government's policy agenda. As the divergence term (d) continues to decrease from 0.4 to 0.15, the deviation threshold continues to increase to 1.33, which is greater than 1. For such a high deviation threshold, no matter how high the economic decentralization level is, the subnational government never deviates from the national government's policy agenda.

For a highly politically centralized country, the national government controls the subnational government officials' appointment and removal and is more capable to appoint a subnational government official who shares the national government's policy preference and thus has a lower d term and a higher deviation threshold. Moreover, in a highly politically centralized authoritarian regime, the subnational government is also less accountable to the local constituency or local interests in general. As discussed earlier, subnational government's accountability to local interests is a source of policy preference differences between the two levels of governments. Low accountability to the local interests, thus, also reduces the policy preference divergence (d). Therefore, high political centralization levels decrease the policy preference divergence between the national and subnational governments and increase the deviation threshold.

So far, I have introduced the concept of the subnational government's "deviation threshold," which is the maximum economic decentralization level that the national government can set without triggering the policy deviations from the subnational governments. The subnational government's deviation thresholds are higher in systems with higher political centralization levels, because higher political centralization levels imply a stronger reward-punishment mechanism and a lower policy preference divergence between the national and

⁷For the subnational government, when the reward-punishment mechanism is too strong, i.e., when $\frac{c}{\lambda_S} > 1$, regardless of the policy preference divergence (d), the deviation threshold is always greater than 1 and the subnational government never deviates from the national government's policy agenda. Thus, one condition for the policy preference divergence to affect the deviation threshold is that the relative strength of the reward-punishment mechanism is not too high.

subnational governments.

2.5.2 Deviation Thresholds and the SPNE Outcomes

The game can reach four pure strategy SPNE outcomes. The SPNE outcomes are different for the different types of the national government in Table 2.1. The following discussion centers around one type of the national government, the ideological developmental type. In a country that has a relatively high socioeconomically optimal economic decentralization level, the positive effects of political centralization on the economic decentralization policies are most significant under the ideological developmental type among all national government types. This type is also the empirical focus of the comparative case studies of China (in Chapter 4) and Mexico (in Chapter 5). For this type of national government, two SPNE outcomes are possible. In addition to the ideological developmental type, I also discuss the other types to provide a benchmark and show the conditions under which the other two SPNE outcomes are possible. The comparative statics for how the equilibrium economic decentralization levels change with the strength of the reward-punishment mechanism and the policy preference divergence between the two levels of the government are discussed in Appendix A.

Depending on the values of the six parameters, including x_0 (depending on the country's socioeconomic conditions), θ and λ_N (capturing the types of the national government), and d , c , and λ_S (depending on the political centralization level), the game has four possible pure strategy SPNE outcomes. They are $(0, I)$, (x_D, D) , (x_τ, I) , and (x_I, I) , where

Three Possible SPNE Economic Decentralization Levels

$$\begin{cases} x_D &= x_0 - \frac{1-\theta}{2\theta} - \frac{\lambda_N d}{2\theta} \\ x_\tau &= \frac{c}{\lambda_S d} \\ x_I &= x_0 - \frac{1-\theta}{2\theta}. \end{cases} \quad (2.5)$$

$(0, I)$ means that the national government implements complete economic centralization, and the subnational government implements the national government's economic policy agenda.⁸

⁸In this case, whether the subnational government implements or deviates from the national agenda is

(x_D, D) happens when the national government sets the economic decentralization level higher than the subnational government's deviation threshold and anticipates policy deviations from the subnational government. In this way, the national government sacrifices the implementation of its preferred economic policies at the subnational level in exchange for the economic efficiency gains promised by the economic decentralization. The subnational government deviates from the national government's preferred economic policies.

(x_τ, I) happens when the national government sets the economic decentralization level at the subnational government's deviation threshold to ensure the policy implementation at the subnational level, and the subnational government implements the national government's economic agenda.

Finally, (x_I, I) means that the national government sets the economic decentralization level at a rather high level that only depends on the socioeconomic conditions and its own desire of economic development without worrying about the subnational government's policy deviations, and the subnational government implements the national economic agenda.

Which SPNE outcome is reached depends on the values of the model's six parameters. For an ideological developmental national government (the focus of the next three chapters), if it governs a country with a relatively high socioeconomically optimal economic decentralization level (x_0)—for instance, the country is large in terms of its population and geographic size, ethnically and linguistically heterogeneous, or economically developed—the theory predicts that there are two possible SPNE outcomes. They are (x_τ, I) and (x_I, I) .⁹ Between them, whether the outcome is (x_τ, I) or (x_I, I) depends on the relative quantities of x_τ and x_I (see Equation 2.5).

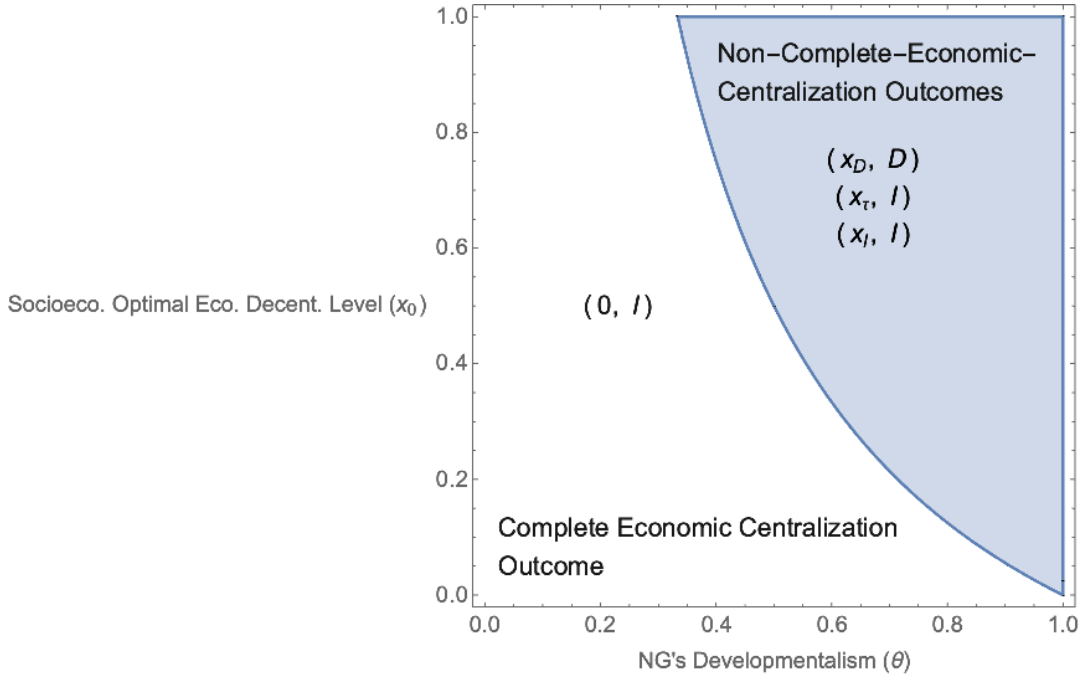
Firstly, being a developmental national government in a country with a high socioeconomically optimal economic decentralization level, shown in the shaded area in Figure 2.4, makes the two SPNE outcomes— (x_τ, I) and (x_I, I) —possible.¹⁰ In contrast, if the national government is not developmental, because the subnational government does not have any economic resources to affect the final policy outcome.

⁹The exact conditions required for the SPNE outcomes to be either (x_τ, I) or (x_I, I) are

$$\begin{cases} \lambda_N d \geq 2\theta x_0 + \theta - 1 \\ 2\theta x_0 + \theta > 1. \end{cases}$$

¹⁰Specifically, θ and x_0 should satisfy $2\theta x_0 + \theta > 1$.

Figure 2.4. The Effects of the Socioeconomically Optimal Economic Decentralization Level (x_0) and NG's Developmentalism (θ) on the Four SPNE Outcomes



tional government is predatory (regardless of whether it is ideological or pragmatic) or the country has a low socioeconomically optimal economic decentralization level, shown in the unshaded area in Figure 2.4, only the SPNE outcome $(0, I)$, namely the complete economic centralization outcome, is possible.

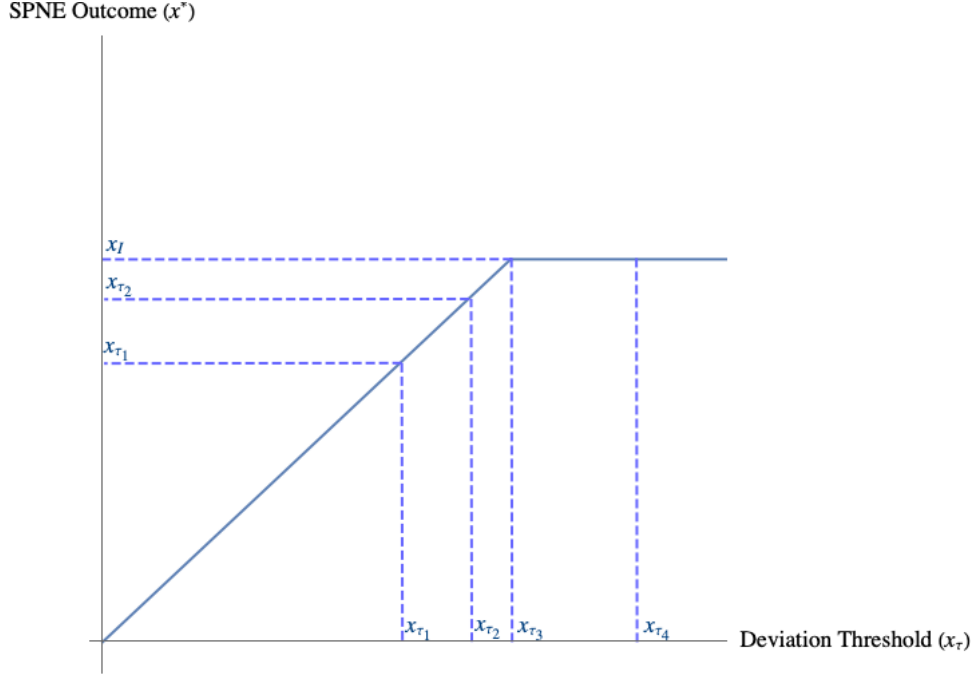
Secondly, being an ideological developmental national government makes (x_D, D) impossible. (x_D, D) is only possible for the relatively pragmatic developmental national government, because only when λ_N is relatively low, is the national government willing to sacrifice the policy implementation at the subnational level in exchange for the economic efficiency gains through economic decentralization.¹¹ It is worth noting that whether (x_D, D) is possible depends on $\lambda_N d$. Holding the policy preference divergence d constant, the ideological parameter λ_N then determines whether (x_D, D) is possible. When d is high, the national

¹¹The conditions for (x_D, D) to be a possible SPNE outcome are

$$\begin{cases} \lambda_N d < 2\theta x_0 + \theta - 1 \\ 2\theta x_0 + \theta > 1. \end{cases}$$

government can be relatively pragmatic, namely λ_N can be relatively low, while (x_D, D) still cannot be the SPNE outcome. On the other hand, when d is very low, the national government can be relatively ideological, while (x_D, D) is still possible. This is illustrated in Figure A9 in the Appendix.

Figure 2.5. The SPNE Economic Decentralization Level (x^*) and the Deviation Threshold (x_τ) for an Ideological Developmental National Government



Now provided that a national government is the ideological developmental type and it governs in a country with a relatively high socioeconomically optimal economic decentralization level, how does the level of the political centralization affect the national government's incentives to pursue the economic decentralization policies? As discussed earlier, a higher political centralization level can increase the subnational government's deviation threshold through strengthening the reward-punishment mechanism and reducing the policy preference divergence between the national and subnational governments. At the same time, an increase in the deviation threshold can increase the equilibrium economic decentralization level.

Illustrated in Figure 2.5, the equilibrium economic decentralization level depends on the subnational government's deviation threshold x_τ . When the subnational government's deviation threshold x_τ is less than or equal to x_I , illustrated by the three values x_{τ_1} , x_{τ_2} , and

x_{τ_3} in Figure 2.5, the equilibrium outcome is (x_{τ}, I) . When the subnational government's deviation threshold x_{τ} is greater than x_I , such as x_{τ_4} in Figure 2.5, the equilibrium outcome is (x_I, I) .

Thus, for an ideological developmental national government in a country with a relatively high socioeconomically optimal economic decentralization level, the national government would either set the economic decentralization level at the deviation threshold, if the political centralization level is low; or set it at the highest level ever desired by the national government (constrained by the socioeconomic conditions and the national government's predatory tendency¹²), if the political centralization level is high. In all cases, the subnational government implements the national government's preferred economic policies.

In summary, being an ideological national government makes the national government strongly dislike the subnational government's policy deviations, which makes it impossible for (x_D, D) to be an SPNE outcome. Being a developmental national government in a country with a high socioeconomically optimal economic decentralization level makes the national government unwilling to have a completely centralized economic system. Thus, $(0, I)$ is impossible. When all the conditions (high λ_N , high θ , and high x_0) are met, a higher political centralization level can increase the national government's incentives to pursue the economic decentralization policies.

In the comparative case study chapters on the postrevolutionary regimes in China and Mexico, I test whether and how the levels of political centralization affected the subnational governments' deviation thresholds and whether and how the subnational governments' deviation thresholds affected the national government's incentives to pursue the economic (de)centralization policies. These two cases satisfy the conditions identified by the theoretical model, which include the national governments in both countries were relatively ideological and developmentally oriented during the historical period being studied, and both countries are large enough to have relatively high socioeconomically optimal economic decentralization levels. The case selection criteria and the case study method will be discussed in more detail in Chapter 3.

Now I briefly discuss the SPNE outcomes for the other types of national government.

¹²Recall that $x_I = x_0 - \frac{1-\theta}{2\theta}$. x_I is a monotonically increasing function of x_0 and θ .

Firstly, as mentioned earlier, for a predatory national government or a relatively developmental national government that governs a country with a very low socioeconomically optimal economic decentralization level, the SPNE outcome is expected to be $(0, I)$.¹³

In order for the complete economic centralization to be the SPNE outcome, the values of θ (the degree of developmentalism of the authoritarian national government) and x_0 (the socioeconomically optimal economic decentralization level) need to fall in the unshaded area in Figure 2.4. When the national government is extremely predatory, i.e., when $\theta \in (0, \frac{1}{3}]$, the SPNE economic decentralization level is always zero, regardless of how high the socioeconomically optimal level (x_0) is. This implies that being an extremely predatory national government is a sufficient condition for the complete economic centralization. As the national government becomes increasingly developmental (as θ increases), whether the SPNE outcome is the complete economic centralization depends on the socioeconomically optimal economic decentralization level (x_0). A developmental national government prefers the complete economic centralization outcome, when the country has a very low socioeconomically optimal economic decentralization level. It needs to be a relatively small country in terms of its geographic and population sizes, or ethnically and linguistically homogeneous, or economically not very developed. On the other hand, for a predatory national government, its socioeconomically optimal economic decentralization level can be relatively high while it still pursues complete economic centralization.

When $(0, I)$ is the SPNE outcome, the level of the political centralization no longer affects the equilibrium economic decentralization level, because the national government would always prefer complete economic centralization.

Finally, for a pragmatic developmental national government in a country with a relatively high socioeconomically optimal economic decentralization level, three SPNE outcomes— (x_D, D) , (x_τ, I) , and (x_I, I) —are possible. Which one of these three is reached depends on the level of the political centralization.

When the political centralization level is low and thus the subnational government's deviation threshold is low, the pragmatic developmental national government would prefer to set the economic decentralization level at a level higher than the subnational government's

¹³The exact condition for $(0, I)$ to be $2\theta x_0 + \theta < 1$.

deviation threshold and thus allow policy deviations at the subnational level in exchange for higher economic efficiency. In this case, (x_D, D) is the SPNE outcome.¹⁴ As the political centralization level increases, the subnational government's deviation threshold also increases. At one point, the subnational government's deviation threshold is high enough that if the economic decentralization level is set at the deviation threshold, the national government could obtain sufficient economic efficiency that it is no longer willing to allow policy deviations at the subnational level. In this case, (x_τ, I) becomes the SPNE outcome.¹⁵ As the political centralization level and the subnational government's deviation threshold continues to increase and exceeds x_I —the highest economic decentralization level ever desired by the national government constrained only by the socioeconomic conditions and the national government's predatory tendency—the national government no longer sets the economic decentralization level at the subnational government's deviation threshold. Instead, it sets the economic decentralization level at x_I , and the SPNE outcome is (x_I, I) .¹⁶

For the pragmatic developmental national government, the equilibrium economic decentralization level no longer simply increases with the political centralization level, like the case for the ideological developmental type. It is possible for an increase in the political centralization level to result in a decrease in the economic decentralization level. This is a phenomenon caused by the national government's pragmatism. In particular, such a national government would tolerate the subnational level's policy deviations when the political centralization level is low, rather than set the economic decentralization at a low level and lose economic efficiency. As mentioned earlier, this aspect of the theoretical prediction is not tested in the case study chapters, but is worth exploring in future research.

2.5.3 Empirical Implications

This section discusses the empirical implications of the theoretical model. One advantage of deriving the empirical implications from the theoretical model is that the model can, in a

¹⁴When $x_\tau < x_I - \sqrt{\frac{\lambda_N d}{\theta}(x_I - \frac{\lambda_N d}{4\theta})}$, (x_D, D) is the SPNE outcome.

¹⁵When $x_I - \sqrt{\frac{\lambda_N d}{\theta}(x_I - \frac{\lambda_N d}{4\theta})} \leq x_\tau \leq x_I$, (x_τ, I) is the SPNE outcome.

¹⁶When $x_\tau > x_I$, (x_I, I) is the SPNE outcome.

clear manner, identify the scope conditions under which a high level of political centralization facilitates the economic decentralization policies.

Hypothesis 1 *In authoritarian systems, when the national governments are ideological and developmental and the countries have relatively high socioeconomically optimal economic decentralization levels, a system with a higher political centralization level has a higher economic decentralization level.*

This is the main hypothesis tested in the later case study chapters on the postrevolutionary regimes of China and Mexico. As stated in the hypothesis, the model identifies four scope conditions for the political centralization level to increase the equilibrium economic decentralization levels.

The first condition is that the system is authoritarian. Because the theoretical model analyzes the economic decentralization process as a top-down delegation process as opposed to a bottom-up bargaining process, the implications drawn from the model are more applicable to the cases where the bottom-up mechanisms are weak. These are likely to be the authoritarian systems, because in authoritarian systems the channels through which the subnational governments would voice their demands for more economic decentralization, such as the legislatures and the media, are relatively weak and lacking autonomy. Moreover, in authoritarian systems, the subnational governments also often lack the power to sustain a strong bargaining position vis-à-vis the national government, compared to the subnational governments in democracies. Although the top-down mechanisms are more likely to operate in authoritarian regimes than in democracies, being an authoritarian system is neither a sufficient nor a necessary condition for the process to be a top-down process. Admittedly, there are authoritarian cases where the economic decentralization policies are resulted from the bottom-up pressures, for instance, Yugoslavia granted both political and economic authority to its republics in the 1970s due to the bottom-up mobilizations prior to 1971. Also, there are potential democratic cases where the economic decentralization policies can be results of a top-down process. Being authoritarian is a loose scope condition that proxies a system where the top-down mechanism is strong.

The second condition is that the national government is the ideological type. This con-

dition ensures that the relationship between the level of political centralization and the economic decentralization outcomes is a monotonically increasing one. Unlike the pragmatic type, which tolerates the subnational government's policy deviations when the political centralization level is low, the ideological type values the policy implementation at the subnational level to a sufficient extent that it is unwilling to sacrifice the policy implementation in exchange for higher economic efficiency promised by the economic decentralization. The pragmatic type allows for a non-monotonic relationship, because the national government's preferred economic decentralization level is not only high when the political centralization level is high (like the ideological type) but also high when the political centralization level is low (due to its pragmatism). On the other hand, for the ideological type, the national government's preferred economic decentralization level monotonically increases with the political centralization level, due to the national government's unwillingness to tolerate policy deviations at the subnational level. Although this theory intends to capture the overall level of economic decentralization and as a result the discussions so far describe the overall ideological level of the national government, in fact this model can be applied to a narrower context, where the decentralization level in a particular economic policy area depends on how much the national government values the policy implementation in this particular policy area. In this case, even when the national government appears pragmatic in general, if it values the implementation of a particular economic policy enough, it is expected to behave like other ideological national governments in the sense that its preferred decentralization level in this economic policy area monotonically increases with the level of political centralization.

Although the pragmatic type is not the focus of this dissertation, understanding the economic decentralization logic for the pragmatic type can clarify the scope condition. Moreover, the economic decentralization logic for the pragmatic type is an important empirical implication derived from the theory and worth future empirical examinations. Thus, I present the hypothesis for the pragmatic type in the following.

Hypothesis 2 *In authoritarian systems, when the national governments are pragmatic and developmental and the countries have relatively high socioeconomically optimal economic decentralization levels, the economic decentralization level has a non-monotonic relationship with the political centralization level: when the level of political centralization is low, the*

economic decentralization level is high; when the level of political centralization passes a threshold, the economic decentralization level drops to the subnational government's deviation threshold and increases with the political centralization level; and when the level of political centralization is high, the economic decentralization level remains high.

Finally, the third and fourth scope conditions are that the national governments are developmental and the country has a relatively high socioeconomically optimal economic decentralization level. These two conditions allow the political centralization level to have an effect on the economic decentralization level. As explained in the earlier section (in Figure 2.4), the opposite cases include a predatory national government or a weakly developmental national government in a country with a low socioeconomically optimal economic decentralization level. In either case, the equilibrium outcome is that the national government pursues complete economic centralization, regardless of the political centralization levels. Thus, the political centralization level no longer affects the economic decentralization levels.

Again, although this is not the empirical focus of this dissertation, it is an important theoretical prediction that clarifies the scope condition for Hypothesis 1 and worth empirical examinations in the future. Thus, I present the hypothesis here.

Hypothesis 3 *In authoritarian systems, when the national governments are predatory or when the national governments are developmental but the countries have relatively low socioeconomically optimal economic decentralization levels, the economic system is completely centralized. The economic decentralization level does not depend on the political centralization level.*

In summary, this section first introduces the concept of the subnational government's deviation threshold, which is the maximum level of economic decentralization level the national government can set without triggering the subnational government's policy deviations. The subnational government's deviation threshold depends on a country's political centralization level, because the political centralization level influences the national government's ability to reward and punish the subnational officials and affects their policy preferences. Then, I present the SPNE outcomes for the different types of the national government, with an emphasis on the ideological developmental type, which is the focus of the case study chapters.

For the ideological developmental national government in a country with a relatively high socioeconomically optimal economic decentralization level, the equilibrium economic decentralization levels are constrained by the political centralization levels. Specifically, when the political centralization level is low, which results in a low deviation threshold for the subnational government, the ideological developmental type would prefer to set the economic decentralization level at the deviation threshold to ensure the implementation of its preferred economic policies at the subnational level. The equilibrium economic decentralization level increases as the political centralization level increases, until it reaches the highest level ever desired by the national government. From that point on, the equilibrium economic decentralization level stays constant and no longer increases with the political centralization level. I also discuss the SPNE outcomes for the other types of the national government. The predatory national government, regardless of whether it is ideological or pragmatic, prefers the complete economic centralization outcome. The pragmatic developmental national government is willing to sacrifice the implementation of its preferred economic policies at the subnational level in exchange for a higher economic efficiency, when the political centralization level is low. When the political centralization level is high enough, the behavior of the pragmatic developmental national government is similar to an ideological developmental national government, in the sense that it would also either set the economic decentralization level at the deviation threshold or at a rather high level when the political centralization level is high enough. The detailed comparative statics of how the equilibrium economic decentralization levels change with the strength of the reward-punishment mechanisms and the policy preference divergence between the national and subnational governments are shown in Appendix A. Finally, I summarize the empirical implications of the theoretical model in three hypotheses. The main focus of the dissertation is to test Hypothesis 1, but I also present the other two hypotheses because they not only help explain the scope conditions of Hypothesis 1, but are also crucial empirical implications drawn from the theory and worth further empirical examinations.

2.6 CONCLUSIONS

This chapter proposes a game-theoretical model to analyze the political conditions for economic decentralization in authoritarian regimes from a top-down perspective. The theoretical model produces several empirical implications. This dissertation focuses on testing one of them, summarized as Hypothesis 1. Under the four scope conditions (the regime is authoritarian, the national government is the ideological and developmental type, and the country has a relatively high socioeconomically optimal economic decentralization level), a high level of political centralization can increase the economic decentralization levels in a country.

To recap the theoretical model, the game has two players, the national government and the subnational government. The national government moves first and decides the country's level of economic decentralization in a top-down manner; the subnational government then chooses whether to use the economic resources, which the national government grants it, to pursue the national government's economic agenda or deviate from the national agenda and implement its own preferred economic policies. The national government's decision on the economic decentralization level depends on its weighing the costs and benefits of the economic decentralization with regard to the following three aspects: the economic resources and authority at its own hands; the overall economic efficiency in the country; and the implementation of its preferred economic policies at the subnational level. The subnational government's decision to pursue the national economic agenda or its own economic agenda is based on its calculation of the costs and benefits with regard to the two aspects it values: the implementation of its own preferred economic policies within its jurisdiction; and the reward and punishment that it would receive from the national government for implementing the national economic agenda or its own preferred policies.

The game-theoretical model produces a crucial concept that links the political centralization level and the economic decentralization level, which is the subnational government's deviation threshold. The subnational government's deviation threshold refers to the maximum level of economic decentralization level the national government can grant the subnational government without triggering their policy deviation behaviors. The subnational government's deviation threshold depends on two political conditions: the strength of the

reward-punishment mechanism, with which the national government can incentivize the subnational government to implement the national economic agenda; and the policy preference divergence between the national and subnational governments. In particular, the subnational government's deviation threshold increases as the reward-punishment mechanism strengthens and the policy preference divergence shrinks. Because an increase in the political centralization level—defined as the national government's control over the subnational government's personnel—is expected to both strengthen the reward-punishment mechanism and reduce the policy preference divergence; an increase in the political centralization level is expected to raise the subnational government's deviation threshold and as a result influence the economic decentralization outcomes.

How the subnational government's deviation threshold affects the equilibrium economic decentralization level depends on the type of the national government and the socioeconomically optimal economic decentralization level. As the empirical component of this dissertation focuses on one type of the national government—the ideological developmental type, the discussion in this section emphasizes the economic decentralization logic for this type of national government. In particular, for the ideological developmental national government in a country with a relatively high socioeconomically optimal economic decentralization level, the equilibrium economic decentralization monotonically increases with the political centralization level. Being the developmental type in a country with a relatively high socioeconomically optimal economic decentralization level ensure that the national government does not just pursue complete economic centralization, and thus allow the political centralization to have an impact on the economic decentralization level. Being the ideological type implies that the national government is unwilling to tolerate the subnational government's policy deviations when the political centralization level is low, which makes the relationship between the political centralization level and the equilibrium economic decentralization level a monotonically increasing one. This is summarized in Hypothesis 1. Additionally, I also present two other empirical implications drawn from the theoretical model for the pragmatic developmental type (Hypothesis 2) and the predatory type (Hypothesis 3), although they are not the focus of this dissertation.

This theoretical model has other empirical implications that can be evaluated by future

research efforts and, if found valid, can help us better understand the economic decentralization outcomes in the top-down cases. Firstly, although I only focus on the ideological developmental type of the national government to test the monotonically increasing relationship between the political centralization level and the equilibrium economic decentralization levels, the model makes other predictions for other types of the national governments that can be tested in future research. Secondly, this dissertation adopts a perspective that centers on how political centralization levels affect the economic decentralization levels and thus focuses on the concept of the deviation threshold. Future researchers can draw other empirical implications from other perspectives, for instance, to explore the comparative statics of how the equilibrium economic decentralization levels change with the level of ideological adherence of the national government, holding the political centralization level constant; similarly, how the equilibrium economic decentralization levels depend on the national government's level of developmentalism, holding the political centralization level constant.

In addition, one can also modify this model to further incorporate other important factors in the economic decentralization process and apply the model to a broader range of cases. Firstly, from this top-down perspective, the model predicts that the authoritarian national government always sets the economic decentralization level lower than its socioeconomically optimal level, x_0 . Among all the SPNE outcomes, the highest economic decentralization level is x_I , which is less than x_0 . This sheds light on the previous scholarly observation that authoritarian regimes tend to be more fiscally centralized than democracies. One of the potential reasons is that political systems that rely mostly on top-down decisions rather than bottom-up bargaining processes limit the economic decentralization levels. Furthermore, the previous literature that emphasizes the bottom-up pressures for economic decentralization often assumes that the national government prefers controlling more economic resources and thus obstructs economic decentralization. By theorizing the top-down incentives, this model clarifies that the national governments are not unequivocally against economic decentralization. There are factors that make some national governments more prone to economic decentralization than others. In this way, future studies that emphasize on how political bargains affect economic decentralization can use this model as a basis to gauge the national government's position.

Secondly, this model assumes that the national government prefers economic decentralization because it brings higher economic efficiency. If one broadens the idea of economic decentralization to include unfunded administrative decentralization, the national government sometimes prefers to reduce its fiscal burden by decentralizing fiscal expenditures, as observed by several decentralization scholars ([Eaton, 2004](#); [Falleti, 2010](#); [Willis, Garman and Haggard, 1999](#)). This is to say that in addition to improving economic efficiency, there are other incentives for the national government to pursue economic decentralization. One can adapt this model to analyze such cases by changing the utility function for the national government.

However, there is one important theme that this model leaves out. This model theorizes the incentives of the national government to pursue economic decentralization and does not theorize its capacity to decentralize. For a weak national government that does not have the capacity to centralize, either because it would trigger regional revolt or it just lacks the state capacity to maintain a centralized system, even if the national government prefers a high level of economic centralization, it is not able to achieve it. But this does not mean this theory is useless for such cases, because once such national governments consolidate or strengthen their capacity, this model would help shed light on whether such countries pursue economic centralization or decentralization.

All in all, this chapter offers the theoretical basis for the following empirical chapters. In the case study chapters on China and Mexico, I test one empirical implication drawn from the model, which is for the ideological developmental national government with a relatively high socioeconomically optimal economic decentralization level, a higher level of political centralization increases the economic decentralization level through raising the subnational government's deviation threshold.

3.0 COMPARING CHINA AND MEXICO

In Chapters 4 and 5, I qualitatively compare the early periods of two long-lived party-based authoritarian regimes, China from 1949 (the establishment of the People’s Republic of China [PRC]) to 1962 (the end of the Great Leap Forward) and Mexico from 1917 (the promulgation of the Mexican Constitution) to 1948 (the establishment of the national sales tax). In this chapter, I discuss the justifications for and methods of comparing these two cases. In particular, the case study chapters analyze the two countries using two methods: (1) comparatively, I use the method of difference design (Skocpol and Somers, 1980); and (2) within each case, they are analyzed using the process-tracing method with guidelines provided by Beach and Pedersen (2013). The cross-regime comparison tests the validity of the following historical statement:

Statement 1 *A relatively high level of political centralization in China in the 1950s contributed to the economic decentralization policies in late 1957 and 1958. A relatively high level of political decentralization in Mexico in the 1920s contributed to the economic centralization policies in the 1920s, which lasted during the period under analysis from the 1920s to the 1940s and beyond.*

The within-regime analyses test the following two causal mechanisms. A relatively high level of political centralization in China in the period of 1949–1962 is expected to result in local government officials’ high deviation thresholds, by maintaining a strong reward-punishment mechanism and a low policy preference divergence between the central and local governments. The high deviation thresholds in turn are expected to be manifest in the local officials’ faithful implementation of the central economic policy agenda and to lead the central government to trust the local officials. Such a trust then facilitated the economic

decentralization process at the early stage of the Great Leap Forward.

Compared to China, the level of political centralization in Mexico from the 1920s to the 1940s is expected to be lower. The relatively low level of political centralization is expected to lead to low deviation thresholds for the state governments, because the reward-punishment mechanism is expected to be relatively weak—with regard to enforcing the federal economic policy agenda—and the economic policy preference divergence between the federal and state governments is expected to be relatively great. The low deviation thresholds then are expected to cause the state governments to deviate from the federal economic agenda and make the federal government unable to trust the state officials with the economic resources. This low level of trust then led the federal government to pursue the economic centralization policies from the 1920s to the 1940s.

In this chapter, Section 3.1 introduces the reasons for comparing the two seemingly uncomparable cases and illustrates the logic of using the method of difference design. Section 3.2 explains why and how I use the theory-testing process-tracing method to test the causal mechanisms in both cases.

3.1 WHY COMPARING CHINA AND MEXICO?

Both China and Mexico are large populous developing countries, we would expect that they have similar levels of economic decentralization. Moreover, constitutionally China is a unitary system while Mexico is a federal system, so we would expect that Mexico is more economically decentralized than China. However, in reality China under the CPC is more fiscally decentralized than Mexico under the PRI. Why is this the case?

During the years between 1953 and 2008, China's fiscal revenue decentralization level on average was around 58%, while between 1923 and 1982, Mexico's fiscal decentralization level on average was around 21%.¹ Table 3.1 juxtaposes the levels of fiscal revenue decentralization for China and Mexico for their first six decades after they overthrew the old regime.² In fact,

¹The values are calculated by the author based on data drawn from [China Data Online \(2017\)](#) and [Díaz-Cayeros \(1995, p. 65\)](#).

²For China's baseline year, I use the year of 1949, when the PRC was founded as Year 0; and for Mexico's

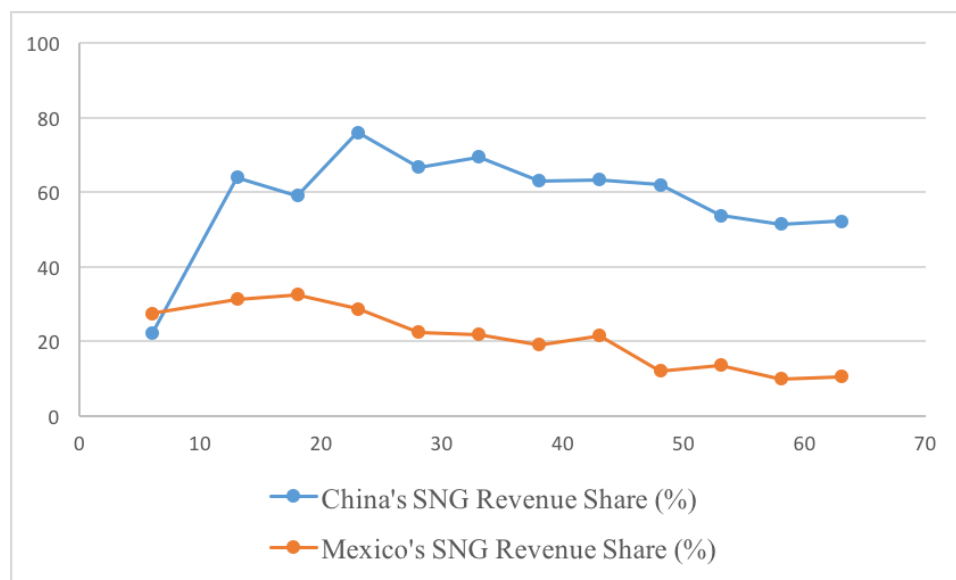
Table 3.1. Fiscal Revenue Decentralization Patterns in China (1955–2012) and Mexico (1923–1980)

Regime Age	China		Mexico	
	Year	SNG Rev. Share (%)	Year	SNG Rev. Share (%)
6	1955	22.2	1923	27.4
13	1962	63.9	1930	31.3
18	1967	59.0	1935	32.5
23	1972	75.9	1940	28.6
28	1977	66.7	1945	22.4
33	1982	69.4	1950	21.7
38	1987	63.0	1955	19.1
43	1992	63.4	1960	21.4
48	1997	61.9	1965	12
53	2002	53.7	1970	13.6
58	2007	51.4	1975	9.9
63	2012	52.1	1980	10.5

Sources: the raw data on China are drawn from [China Data Online \(2017\)](#) and the subnational government's revenue share is calculated by the author; the data on Mexico are from [Díaz-Cayeros \(1995, p. 65\)](#).

in the early period of the two authoritarian regimes, they had similar levels of fiscal revenue decentralization, 22.2% for China in 1955 and 27.4% for Mexico in 1923. While at the end of the 63rd year, they were starkly different, with China's fiscal revenue decentralization level at 52.1% in 2012 and Mexico's fiscal revenue decentralization at 10.5% in 1980.³

Figure 3.1. Fiscal Revenue Decentralization Patterns in China (1955–2012) and Mexico (1923–1980)



Sources: the raw data on China are drawn from [China Data Online \(2017\)](#) and the subnational government's revenue share is calculated by the author; the data on Mexico are from [Díaz-Cayeros \(1995, p. 65\)](#).

Based on the data in Table 3.1, Figure 3.1 plots the time trends of fiscal revenue decentralization levels for these two regimes. The two trends share similar beginning levels and start to diverge in the early periods: in their respective 13th year, China reached a peak of fiscal revenue decentralization at 63.9% in 1962 and Mexico stayed at 31.3% in 1930, a little higher than its initial level. Ten years later, China's fiscal revenue decentralization level reached a maximum level at 75.9% in 1972 while Mexico started a trend of fiscal revenue centralization, when its fiscal decentralization level dropped to 28.6% in 1940. Over the next twenty years, China's fiscal revenue decentralization levels stayed at around 65% from 1977 to 1997, while Mexico continued the fiscal centralization process and its subnational government's revenue share dropped from 22.4% in 1945 to 12% in 1965. When these

baseline year, I use the year of 1917, when the current Mexican constitution was promulgated.

³The years listed in Table 3.1 are selected based on the availability of data on Mexico.

regimes reached their 53rd, 58th, and 63rd years, Mexico stayed highly centralized, with its subnational government's fiscal revenue share at around 10%; while China experienced fiscal revenue centralization that brought the subnational government's revenue share down from 61.9% in 1997 to around 52% in 2012. The high level of fiscal revenue centralization in Mexico by the 1970s is partly resulted from a significant increase in oil revenue during the 1970s, which directly went to the federal government through the nationalized oil company, PEMEX (Díaz-Cayeros, 2006, p. 132), but as the figure illustrates and as the previous scholars have shown, the fiscal centralization process began much earlier than the 1970s. The fact that the oil revenue exclusively belonged to the federal government in the 1970s is a consequence of the fiscal centralization process that began as early as the 1920s (Aboites Aguilar, 2003; Díaz-Cayeros, 2006).

Given that both are party-based authoritarian regimes established after a revolution and both have relatively large geographic and population sizes, why do they diverge in their fiscal decentralization trajectories and have very different fiscal decentralization levels after six decades of their respective rule? What are the different potential explanatory variables that drove the different outcomes? To solve this mystery, Table 3.2 lists the similarities and differences in the potential explanatory variables and the outcome variable.

Shown in more detail in Table 3.2, China and Mexico are both large countries in terms of their population and geographic sizes. According to the economics literature, we would expect both countries to be economically decentralized (Arzaghi and Henderson, 2005). In the early periods of their respective authoritarian rule, neither of them was very urbanized, so this potential variable identified by the earlier literature (Letelier S., 2005; Samuels, 2004), cannot explain the different outcomes. Since both were party-based authoritarian regimes established after their respective revolutions, neither can this political regime variable explain the different economic outcomes. Mexico under the PRI had a more open political system, as the PRI government allowed opposition parties to exist and compete in the federal, state, and local elections. On the other hand, China under the CPC formally allows other non-ruling parties to exist but does not hold elections where such parties can compete with the CPC. If we expect the less authoritarian system to be more economically decentralized (Arzaghi and Henderson, 2005), then it is puzzling why a more closed political system such as China

Table 3.2. Similarities and Differences between China and Mexico

		China (1949--1962)	Mexico (1917--1948)	NG's Expected Incentives to Pursue Economic Decentralization
Similar Conditions	Area (km2)	9,572,900	1,964,375	Strong in both countries
	Population	546,815,000 (1950)	14,970,000 (1913)	Strong in both countries
	Urban Population Share	11.1% (1949)	12.9% (1910)	Weak in both countries
	Political Regime	Party-based authoritarian	Party-based authoritarian	Weak in both countries
Different Conditions	GDPPC (1990 International Dollars)	552 (1950)	1,732 (1913)	Stronger in Mexico
	Economic System	Command economy => mixed economy	ISI => neoliberal economy	Stronger in Mexico
	Constitutional Form	Unitary	Federal	Stronger in Mexico
	Political Centralization Levels	High	Low	<i>Weaker in Mexico</i>
Different Outcomes	Policy Outcomes	Economic Decentralization Policies	Economic Centralization Policies	<i>Weaker in Mexico</i>

Note: for the following rows, population sizes, urban population shares, and GDPPC, the years to which the statistics correspond are in parentheses.

Sources: The geographic sizes are drawn from [Encyclopaedia Britannica \(2017a\)](#) and [Encyclopaedia Britannica \(2017b\)](#). The population sizes and the GDPPC data are based on [Maddison \(2001, p. 213, p. 193, and p. 90\)](#). The urban population shares are drawn from [Chan and Xu \(1985, p. 598\)](#) and [Snyder \(1966, p. 79\)](#).

implemented economic decentralization policies while a less closed system such as Mexico under PRI pursued the economic centralization policies.

With regard to the differences between these two regimes (highlighted in grey), in the early periods of their authoritarian rule, Mexico was more economically developed than China. Based on the economics literature ([Arzaghi and Henderson, 2005](#); [Letelier S., 2005](#)), we would expect Mexico to be more economically decentralized than China, contrary to the outcome observed. Similarly, the economic systems in these two regimes also point to the opposite direction than the real outcomes. In particular, China initially adopted the Soviet-style command economy in the 1950s and Mexico pursued nationalist but still capitalist economic policies after its revolution, we would expect Mexico to be more economically decentralized than China. Finally, according to their respective constitutions, China is a unitary country while Mexico is a federal country, based on which we would again expect Mexico to be more economically decentralized.

The theory developed in Chapter 2 suggests that the explanation may lie in the final potential difference, which is the different political centralization levels of these two regimes. In particular, with a highly disciplined and centralized party, China's regime was highly politically centralized in the 1950s. On the other hand, Mexico's system was much less politically centralized than China from the 1920s to the 1940s, although it experienced a political centralization process in this period. According to the theoretical expectation, a high level of political centralization can create the necessary political conditions for the subnational governments to follow the national economic agenda, increase the national government's trust, and consequently facilitate the economic decentralization policies; while a low level of political centralization can cause the subnational governments to be more likely to pursue their own economic agenda and hence deviate from the national economic policies, reduce the national government's trust, and as a result lead the national government to prefer economic centralization policies.

Stating that Mexico was politically decentralized is likely to cause controversies among the Mexican scholars, many of whom would consider the system under the PRI to be highly politically centralized, in which the Presidents in Mexico City were the ultimate decision-makers ([Tannenbaum, 1964](#); [Brandenburg, 1964](#); [Langston, 2017](#)). Before I discuss how I

test the causal mechanisms in China and Mexico, here I present the two reasons for why Mexico is treated as a politically decentralized case in this study.

Firstly, the Mexican political system was relatively politically decentralized during the period that this study focuses on, which is the period from the 1920s to the 1940s when the first economic centralization episode happened. This is the first three decades of the Mexican authoritarian regime, with its beginning marked by the end of the revolutionary conflicts and its end marked by President Miguel Alemán's push for creating the national sales tax. The regionally fragmented nature of the Mexican revolution led to a political scene dominated by the regional strongmen who frequently engaged in regional revolts against the national leadership in the 1920s. Thus, classifying the Mexican system in the 1920s as politically decentralized should not be controversial among the Mexican scholars. This study examines how this condition of political decentralization triggered the economic centralization policies in the 1920s. From the late 1920s to the 1940s, Mexico witnessed consistent and successful federal efforts of both political and economic centralization, and as a result, the political system was much more centralized in the late 1940s than in the 1920s. Empirically we can ask the following questions: Can Mexico still be considered as politically decentralized in the late 1940s? Were the economic centralization policies under President Alemán resulted from political decentralization? I examine these empirical questions in Chapter 5 and my conclusion is that the system was still relatively politically decentralized and the economic centralization policies could be traced back to the political decentralization. This is probably a controversial conclusion for the Mexican scholars, but this is related to my second reason for treating the Mexican case as politically decentralized.

Secondly, I consider the Mexican system as politically decentralized, because in this study's comparative framework, the baseline case is the Chinese system in the 1950s. Despite the political centralization process from the 1920s to the 1940s, as I will show in more detail in Chapter 5, the Mexican system did not achieve a similarly high level of political centralization as the Chinese case. Consequently, the Mexican federal government did not have the strong trust in the state governors during the three decades, which the Chinese central government had in the provincial leaders in the 1950s. Although by its own standard or if we use other federal democratic countries as baseline cases, the Mexican political system in the 1940s

seems highly politically centralized, if we bring in the even more centralized systems, such as the Chinese case, there is still a big difference between them and the Mexican system. This difference, as I will argue in the case study chapters, makes a difference in their economic (de)centralization policies. In fact, by using a different benchmark, namely the Chinese case in the 1950s, this study problematizes the economic centralization process in Mexico, and identifies a new causal relationship. Gaining this new perspective is one of the advantages of comparative case studies. Similarly, by using Mexico as a baseline case, this study also problematizes the economic decentralization policies in China in the 1950s and shows that such policies depended on the high level of political centralization during that historical period.

In sum, based on Table 3.2, these two authoritarian cases can help us better understand whether the levels of political centralization cause the economic decentralization outcomes as predicted by the theory in Chapter 2. To further take advantage of the small-N approach, I examine each case using the theory-testing process-tracing method to test the causal mechanisms between the levels of political centralization and the economic (de)centralization policy outcomes.

3.2 TESTING CAUSAL MECHANISMS

The advantage of the process-tracing methods is that these methods understand and test causality as a mechanism. In addition to just showing the correlation between/copresence of the independent and dependent variables, the process-tracing methods aim to open up “the black box of causality to study more directly the causal mechanism whereby X contributes to producing Y ” (Beach and Pedersen, 2013, p. 11). Specifically, I apply the process-tracing method to test two causal mechanisms derived from the theory in the early periods of these two regimes: (1) for China from 1949 to 1962, I test the causal mechanism that links political centralization to economic decentralization policies; and (2) for Mexico from 1917 to 1948, I test the causal mechanism that links political decentralization to economic centralization policies. The expected causal mechanisms are summarized as follows:

In the early period of the PRC, political centralization allowed the central government to maintain a strong reward-punishment mechanism and a low policy preference divergence between the central and local governments. These two factors contributed to high deviation thresholds for the local government officials, whereby the local officials implemented the central government's economic policy agenda. These behaviors of the local officials further caused the central government to anticipate that the local officials would follow through the national economic policy agenda after economic decentralization. Provided these political conditions, the central government pursued economic decentralization policies, when it desired a rapid economic development during the Great Leap Forward.

After the Mexican revolution, the political system of Mexico in the 1920s was highly decentralized with strong regional governors and a relatively weak political center. Political decentralization led to a weak reward-punishment mechanism so that the federal government was not able to hold state government officials accountable for their economic policy deviations. Moreover, due to the high level of political decentralization, the state government officials had their own economic policy preferences that were different from the federal government's economic policy agenda. These two factors, a weak reward-punishment mechanism and a high policy preference divergence between the two levels of government, created a low deviation threshold for the state government officials. Thus, state governments deviated from the federal government's economic policy agenda. The federal government was frustrated by its own inability to pursue its preferred economic policies, when the economic resources and policy-making authority were decentralized. As a consequence, the federal government chose to pursue the economic centralization policies from the 1920s to the 1940s.

Before testing these causal mechanisms, in the following I clarify two research design issues that [Beach and Pedersen \(2013\)](#) identify as critical for conducting the theory-testing process-tracing research, which are (1) the conceptualization of the causes and outcomes, and (2) the scope conditions (p. 147).

3.2.1 Conceptualizing the Causes and Outcomes

Because the process-tracing methods assume causality to be a mechanism as opposed to a regularity, to implement a process-tracing method, [Beach and Pedersen](#) recommend that the concepts be defined as *conditions*, instead of *variables*. The research focus is thus on the concept itself and its negation, namely the presence and absence of a condition, instead of the full variation of the concept ([2013](#), pp. 47–48). To follow the guideline of [Beach and Pedersen \(2013\)](#), I define the causes (X) and the outcomes (Y) as the following: (1) for China, *political centralization* (X_c) resulted in *economic decentralization policies* (Y_c); and (2) for Mexico, *political decentralization* (X_m) resulted in *economic centralization policies* (Y_m).

For the Chinese case, the cause and the outcome are a centralized political system and the economic decentralization policies, respectively. As conditions, I define a centralized political system to be that the national government had a tight control over the subnational government personnel, and the economic decentralization policies as the policies that granted more economic autonomy to the subnational governments. The detailed manifestations of these two concepts in the Chinese case are discussed in Chapter 4.

When selecting the Chinese case, I expect both conditions to be present. This is consistent with [Beach and Pedersen](#)'s recommendation that to execute the theory-testing process-tracing method, the researcher should select cases where the cause and the outcome were present. Only when they were present can the researcher evaluate whether the causal mechanism linking the cause and the outcome was present and whether it functioned in the way predicted by the theory ([2013](#), p. 147).

For the Mexican case, the cause and the outcome are a decentralized political system and the economic centralization policies. As conditions, a decentralized political system is defined as that the federal government had only a weak control over the state government personnel, and the economic centralization policies are defined as those policies that took the economic autonomy away from the state governments. The concrete instances of these two concepts are discussed in more detail in the case study chapter (Chapter 5). Again, the Mexican case is selected, because I expect both conditions, political decentralization and the economic

centralization policies, were present. The goal of the research is to evaluate the evidence of the causal mechanism linking the cause and the outcome, and to a lesser degree the co-presence of the cause and the outcome. As mentioned earlier, the Mexican political system changed dramatically within the three decades from the 1920s to the 1940s. In particular, the level of political centralization increased significantly and the system was considered by scholars to be politically centralized in the late 1940s (Tannenbaum, 1964; Brandenburg, 1964; Langston, 2017). Hence, in Chapter 5, I also examine how the political centralization process affected the political interactions between the federal and state governments, the level of political centralization in the 1940s, and their implications for the final economic (de)centralization outcomes.

3.2.2 Scope Conditions

Another key aspect with regard to case selection is the scope conditions. “In process-tracing, *scope conditions* refers to the context under which a particular mechanism is theorized as able to be activated” (Beach and Pedersen, 2013, p. 181). The two cases are expected to satisfy the scope conditions identified by the theoretical model in Chapter 2.

Firstly, both cases are authoritarian regimes, where the economic decentralization process or economic centralization process is more likely to be a top-down process and the delegation framework would apply.

Secondly, the model in Chapter 2 identifies conditions under which the effects of political centralization on economic decentralization levels are stronger (the causal mechanism between political centralization and economic decentralization and the causal mechanism between political decentralization and economic centralization are likely to be activated): (1) the national government values economic development; (2) the countries have higher socioeconomically optimal economic decentralization levels; and (3) the national governments are ideological and the political centralization levels are not too high. Recall that if the first two conditions are not satisfied, we would expect complete economic centralization, regardless of the political centralization levels. This is to say that the causal mechanism between political centralization levels and economic decentralization policies is not expected to be activated.

If the third condition is not satisfied, then the relationship between political centralization and economic decentralization policies is expected to be non-monotonic (when the national government is pragmatic); or an increase in the political centralization level is not expected to affect the economic decentralization outcomes (when the political centralization level is too high).

These three scope conditions were satisfied in the two historical cases selected. (1) After the revolutions, the national governments in both China and Mexico valued economic development. (2) Both are large and populous countries that are expected to be economically decentralized based on the socioeconomic factors (see Table 3.2). (3) Finally, both national governments were established after their respective social revolutions. Their revolutionary agenda led the national governments to value the policy implementation at the subnational level. Thus, the condition that the national government was relatively ideological is expected to be present in both cases.⁴ Moreover, both cases were newly established regimes, so their political centralization levels were not too high.

3.2.3 What to Expect?

In the next two chapters, I test the two causal mechanisms: one that links political centralization and the economic decentralization policies in China from 1949 to 1962 and the other one that links political decentralization and the economic centralization policies in Mexico from 1917 to 1948. The two causal mechanisms are shown in Figure 4.1 and Figure 5.1 in the case study chapters.

Specifically, in the Chinese case, I examine the evidence for the following causal links predicted by the theory: (1) the political system was centralized; (2) political centralization increased the deviation thresholds of the local government officials; (3) the local officials' high deviation thresholds made them implement the central government's economic policy agenda; (4) the local officials' behaviors and the centralized political system increased the

⁴Although the Mexican federal government was more pragmatic than the Chinese central government in those historical moments being studied, the theory predicts that when the policy preference divergence is great, a more pragmatic national government would still prefer to set the economic decentralization level at the deviation threshold (see Figure A9). And as a result, it is still expected that a high level of political decentralization would result in the national government's strong incentives to pursue economic centralization policies in the Mexican case.

central government’s trust in the local officials; and finally (5) the central government pursued the economic decentralization policies and the local governments continued to implement the central economic policy agenda after the economic decentralization policies.

Similarly, in the Mexican case, I examine the evidence for the following causal links: (1) the political system was decentralized; (2) political decentralization lowered the state government officials’ deviation thresholds; (3) the state officials’ low deviation thresholds made them deviate from the federal government’s economic policy agenda; (4) the federal government was frustrated by its inability to pursue its preferred economic policies and desired a higher economic centralization level; and finally (5) the federal government pursued the economic centralization policies and the state governments followed the federal government’s economic policy agenda after the economic centralization.

The confirmation of causal mechanisms in these two cases can enhance our confidence in the causal relationships between political centralization and economic decentralization and between political decentralization and economic centralization. One limitation of the process-tracing method, emphasized by [Beach and Pedersen \(2013, p. 152\)](#), is that a single process-tracing test cannot “produce cross-case inferences but can only update our confidence in the presence/absence of a causal mechanism in a particular case, enabling strong within-case inferences to be made.” However, the next two chapters test two causal mechanisms (instead of one) predicted by the theoretical model in two historical cases. Together with the method of difference design, the inferential power of the two cases are stronger than the single process-tracing test in a single case. We can gain more confidence in the theoretical model in [Chapter 2](#). In the meantime, following the two case studies, [Chapter 6](#) conducts a large-N statistical analysis to evaluate the generalizability of the theory.

4.0 CHINA (1949–1962)

4.1 INTRODUCTION

This chapter tests the causal mechanism between a high level of political centralization and economic decentralization policies against the Chinese case in the 1950s. I use theory-testing process-tracing method to examine whether and how the mechanism identified in the game-theoretical model worked in the historical context of China’s Great Leap Forward.

The next section (4.2) provides a brief introduction to the important historical events and offers a background for the following process-tracing analyses. Section 4.3 presents the predicted causal mechanism between a high level of political centralization of the PRC and the economic decentralization policies during the Great Leap Forward, based on the theoretical model developed in Chapter 2.

The subsections in Section 4.4 discusses the historical evidence for each link of the predicted causal mechanism. Section 4.4.1 provides supportive evidence for the first link, namely the political system of the PRC was highly centralized prior to the Great Leap. I discuss the contributing factors for this highly centralized political system, including not only the unitary constitutions but also the highly centralized Marxist-Leninist ruling party, the CPC. In Section 4.4.2, I examine the historical evidence for the second pair of links, namely the local government officials shared similar economic policy preferences with the central government and had strong career incentives to implement the central government’s economic policies. These two factors together constituted local governments’ high deviation thresholds. Section 4.4.3 examines evidence from the case of Guangdong, which supports the third link that the local provincial, county, and village governments indeed implemented the economic policies made by the central government. Section 4.4.4 discusses the evidence for the fourth link

that the central government trusted that the local officials would implement the central government's economic policy agenda after economic decentralization policies. Such a trust constituted a political incentive for the central government to pursue economic decentralization. Additionally, this section also presents the central government's economic incentives for economic decentralization. Finally, Section 4.4.5 discusses the outcomes: (1) the central government decentralized economic resources and authority at the beginning of the Great Leap Forward; and (2) despite the economic decentralization and the disastrous impacts of the Great Leap's radical targets on the local economies, the local governments followed the central government's economic policy agenda.

Finally, in Section 4.5, I summarize the main findings and discuss their implications for understanding the Great Leap Forward and more broadly for understanding the impacts of economic decentralization on economic performance of a country.

4.2 HISTORICAL BACKGROUND

The first economic decentralization episode of the PRC's history happened during the Great Leap Forward (1958–1962). Before analyzing the political conditions that fostered this economic decentralization episode, in this section, I introduce the important historical events in China's political history from the fall of Qing dynasty in 1912 to the end of the Great Leap Forward in 1962, in a chronological manner. It was against this historical background that the political conditions for the economic decentralization, discussed in the later sections, were formed.

The last dynasty, Qing, ended in 1912, after most of China's provinces declared their independence during Xinhai Revolution in 1911. In 1912, the last emperor Puyi abdicated, the Republic of China was established, and the revolutionary leader, Sun Yat-sen established the Nationalist Party (KMT). Due to the lack of military strength of the KMT, Sun Yat-sen could not keep the presidency of the new republic in 1912. Instead, the national government was controlled by President Yuan Shikai, who once commanded the Beiyang Army of the imperial Qing dynasty and gained presidency through arranging for the last emperor's

abdication in 1912 ([MacKinnon, 1980](#); [Young, 1983](#)).

Yuan's death in 1916 marked the beginning of the so-called Warlord Era (1916–1928). During this period, the regions were increasingly dominated by the warlords, over whom the central Beiyang Government often had very little control. The warlords controlled strong military forces and established their relatively autonomous governments in their regional territories. This period lasted until 1928, when the KMT army led by Chiang Kai-shek defeated warlords, such as Wu Peifu and Sun Chuanfang of Zhili Clique, and coopted other warlords, such as Feng Yuxiang of the Northwest Army, Yan Xishan of the Shanxi Clique, and Zhang Xueliang of the Fengtian Clique ([Ch'i, 1976](#); [Sheridan, 1983](#)).

It was in 1921 during the Warlord Era that the CPC was established in Shanghai. At its early stage, the CPC was a congregation of intellectuals, who were scattered across China's provinces and organizing study societies. In 1921, the Party had a membership of around 50. As a result of the small size of the CPC, the newly established Soviet Union did not give the CPC much priority in the early 1920s; instead, the Soviet Union collaborated with the KMT, which was then led by Sun Yat-sen. In the meantime, Sun also relied on the support of the Soviet Union to fight against the Beiyang government and build KMT's own military forces. In exchange of Soviet Union's support, Sun Yat-sen's Nationalist government incorporated the CPC into the KMT and established an alliance between the two parties, namely the First United Front (1923–1927). In the 1920s, the CPC's membership grew rapidly. After the death of Sun Yat-sen in 1925, the divisions between the rightist factions of the KMT, including Chiang Kai-shek, and the CPC and the Soviet Union intensified, resulting the eventual collapse of the First United Front in 1927. The Nationalist government by then had a strong military force led by Chiang and purged the CPC members from the KMT and the government ([Ch'en, 1983](#); [Wilbur, 1983](#)).

In August 1927, the CPC led the Nanchang Uprising in Jiangxi Province, beginning the military confrontation between the CPC and the KMT. In 1930, the Party leader Li Lisan's strategy to call for armed uprisings in the cities and extending the revolution to the whole country failed and resulted in a nearly complete destruction of the CPC. The remaining CPC forces established bases in the rural areas where the KMT had weaker control. In November 1931, the CPC established the Soviet Republic of China in Ruijin County, Jiangxi Province.

From 1930 to 1934, the KMT carried out five Encirclement Campaigns against the CPC bases across China. The CPC was able to defend its bases in the first four campaigns, but lost to the KMT in the Fifth Encirclement Campaign in 1934. The Party leadership thus left Jiangxi Province, began the Long March in October 1934. In January 1937, the Party Center moved to Yan'an in Shaanxi Province ([Ch'en, 1986](#)).

Mao Zedong led the Autumn Harvest Uprising in Hunan and Jiangxi Provinces in 1927 and became an influential military leader since then. But in the Ningdu Conference held in October 1932, Mao's strategy of relying on the rural bases to carry out guerrilla warfare was criticized by the central leadership and Mao was marginalized and replaced by Zhou Enlai. It was during the Long March in 1935 that Mao Zedong regained his military leadership position ([Ch'en, 1986](#)).

In July 1937, the Second Sino-Japanese War began. The Japanese army launched its full-scale invasion of China, taking control of large cities, such as Beijing, Tianjin, Shanghai, and Nanjing (the Capital of the Nationalist government at the time). The KMT and the CPC formed the Second United Front, which lasted from 1937 to 1941, to fight the Japanese invasion as an alliance. In 1937, the Red Army was incorporated into the KMT's National Revolutionary Army, although the de facto control remained in the CPC's hands. The Red Army forces that did not embark on the Long March in 1934 and stayed in the South were reorganized into the New Fourth Army, led by the CPC members Ye Ting and Xiang Ying. The Red Army forces that undertook the Long March were grouped as the Eighth Route Army, commanded by Mao Zedong and Zhu De ([Van Slyke, 1986](#)).

Despite the alliance, the CPC and the KMT continued to compete for territorial control. The Anti-Japanese War and the temporary truce between the CPC and the KMT offered an opportunity for the CPC to recover from the KMT's suppression in the late 1920s and early 1930s. In the meantime, the Second United Front was increasingly weakened and eventually broke down in 1941. In September 1945, the Japanese forces surrendered ([Van Slyke, 1986](#)).

During this Anti-Japanese War period, Mao Zedong became the paramount leader within the CPC. Through the Yan'an Rectification Campaign (1942–1944), Mao completely weakened his prominent rivals in the Party, namely the returned student group, including Wang Ming, Bo Gu, and Zhang Wentian, and consolidated his own authority. From April to June

1945, the CPC held the Seventh National Congress in Yan'an, which passed a Party Constitution that incorporated Mao Zedong Thought as the Party's official ideology ([Schram, 1986](#)).

After the surrender of Japan, the CPC and the KMT resumed the civil war in 1945. After four years' fighting, by October 1949, the People's Liberation Army (PLA) of the CPC took control of the majority of China's territory. As the PLA fought against the KMT's forces in the southern provinces in September 1949, the CPC began the process of establishing a new revolutionary regime in Beijing. In late September of 1949, the CPC held the First Plenary Session of the Chinese People's Political Consultative Conference (CPPCC) with several democratic parties and drafted the Common Program as the provisional constitution. On October 1, 1949, the PRC was founded ([Teiwes, 2011](#)).

The CPC led a rapid and successful regime establishment and consolidation process from 1949 to 1953. By December 1949, the new regime took control of all mainland provinces except Tibet, which was incorporated into the PRC's territory in 1951. To consolidate the revolutionary regime, the CPC-led government carried out two major domestic movements, including the land reform movement (1950–1953) and the suppression of the counter-revolutionaries (1950–1953). As will be discussed in more detail later, these two movements helped the new regime to weaken the traditional elites in the rural and urban areas and consolidate the new government. In addition to these two lengthy movements, the CPC also carried out several shorter political campaigns, including the Rectification Campaign of 1950, the Three-anti and Five-anti Campaigns (1951–1952), and the New Three-anti Campaign of 1953. The first wave anti-localism campaign in Guangdong, which will be discussed in more detail, also happened during this period ([Teiwes, 2011](#); [Zhang and Liu, 1995](#)).

From 1953 to 1956, the government carried out the socialist transformation of agriculture, handicrafts and and capitalist industry and commerce and established public ownership of the means of production. The central government also established a central planning apparatus and several central ministries that mimicked the Soviet command economic system. In September 1954, the First National People's Congress held its first session and passed the first Constitution of the PRC. By 1957, the government had also successfully accomplished the targets of the First Five-Year Plan (1953–1957), which gave top priority to the development

of heavy industry (Teiwes, 2011; Lardy, 1987b).

Encouraged by these economic successes, the central ministries and local governments began to set high targets that required large investments and imposed excessive demands on state resources. In a few months the central leaders who were in charge of the economic policies, including Premier Zhou Enlai and Vice Premier Chen Yun, noticed that such targets were unsustainable and called for the program of “opposing rash advance (*fanmaojin*)” in February 1956. Although Mao was still eager to see the economy develop at a faster speed and had reservations about the “opposing rash advance,” he allowed Zhou and Chen to take charge. But after one year, in October 1957, during Mao’s concluding speech at the Third Plenum of the Eighth Central Committee, he made a sudden change and criticized “opposing rash advance.” His attitudinal change foreshadowed the Great Leap Forward, which was first announced in November 1957 in *People’s Daily* (Luo, 2014).

While Mao was dissatisfied with the slow speed of economic development, politically he also initiated the Anti-Rightist Campaign (*fanyoupai yundong*), which lasted from 1957 to 1958. In September 1956, the CPC held the First Session of the Eighth National Congress, in which the Party leaders announced that the contradiction between the proletariat and the bourgeoisie in China had been basically resolved as a result of the successful socialist transformation. The principal contradiction now became the contradiction between the people’s demand for the construction of an advanced industrialized country and the reality of being a underdeveloped agricultural country (Wu, 2007). In April 1957, the CPC started a rectification movement within the Party to fight against bureaucratism, factionalism, and subjectivism, and also called for the non-Party members to participate in the movement, express their opinions freely, and offer suggestions to the Party and the government. However, the non-Party members’ opinions criticized not only individual Party members and government officials, but also the CPC-led party-state regime. In June 1957, Mao initiated the Anti-Rightist Campaign to target the non-Party members, including the leaders of the democratic parties and intellectuals, and purge the Party members as well. Another wave of anti-localism movement within the Party happened along with the Anti-Rightist Movement.

Against the backdrop of the Anti-Rightist Campaign, the CPC held the Second Session of the Eighth National Congress in May 1958, mobilizing the Party to carry out the Great

Leap Forward movement. In this Congress, the Party redefined the principal contradiction as the struggle of the proletariat against the bourgeoisie and the struggle of the socialist line against the capitalist line. In terms of the economic policy, Mao harshly criticized the “opposing rash advance.” Under Mao’s leadership, the Congress passed the general line for socialist construction—“go all out, aim high, and build socialism with greater, faster, better, and more economical results.” In August 1958, the Party held the Beidaihe Conference, an enlarged meeting of the Politburo, and raised the steel production target and grain target of the year to 10.7 million tons and 300 to 350 million tons respectively. The Conference also passed a resolution to transform the agricultural cooperatives to people’s communes nationwide ([Lardy, 1987a](#)).

It did not take long for the central leadership, including Mao, to notice the disorder caused by the Great Leap Forward. The Party leaders began to change certain targets but did not reverse the course. At the Zhengzhou Conference held in February 1959, Mao criticized the left-deviationism, but also warned the Party against the right-deviationism. In April 1959, at the Second NPC, Liu Shaoqi became President of the PRC, replacing Mao Zedong, while Mao continued to be the Chairman of the CPC. Although the central government adjusted the steel production target in mid-1959, Mao continued to insist his approach of pursuing “greater, faster, better, and more economical results.” In July and August 1959, the CPC held the Lushan Conference, another enlarged meeting of the Politburo, with an agenda to correct the previous mistakes. However, a letter penned by Minister of Defense Peng Dehuai to Mao Zedong that criticized the Great Leap Forward led the Conference to its opposite direction. The Lushan Conference resulted in political purges against the cadres who questioned the Great Leap Forward, including Peng Dehuai, as right opportunists until mid-1960. During this period from August 1959 to mid-1960, the Party continued to set high targets for industrial and agricultural production ([Lieberthal, 1987](#)).

The intensity of the Great Leap Forward decreased after June 1960. In the winter of 1960, Mao began to correct the left-deviationist mistakes in agriculture, which officially halted the Great Leap Forward. In January 1962, the CPC held the Seven Thousand Cadres Conference in Beijing. Its participants included political leaders and representatives from districts, counties, and industrial enterprises. During this Conference, Mao performed self-

criticism. Although the Conference did not reject the Three Banners, namely the General Line for Socialist Construction, the People’s Communes, and the Great Leap Forward, this Conference became a turning point for Mao and planted the seed for the cultural revolution, as the failures of the Great Leap Forward made Liu Shaoqi his serious political competitor within the Party ([Lardy, 1987a](#)).

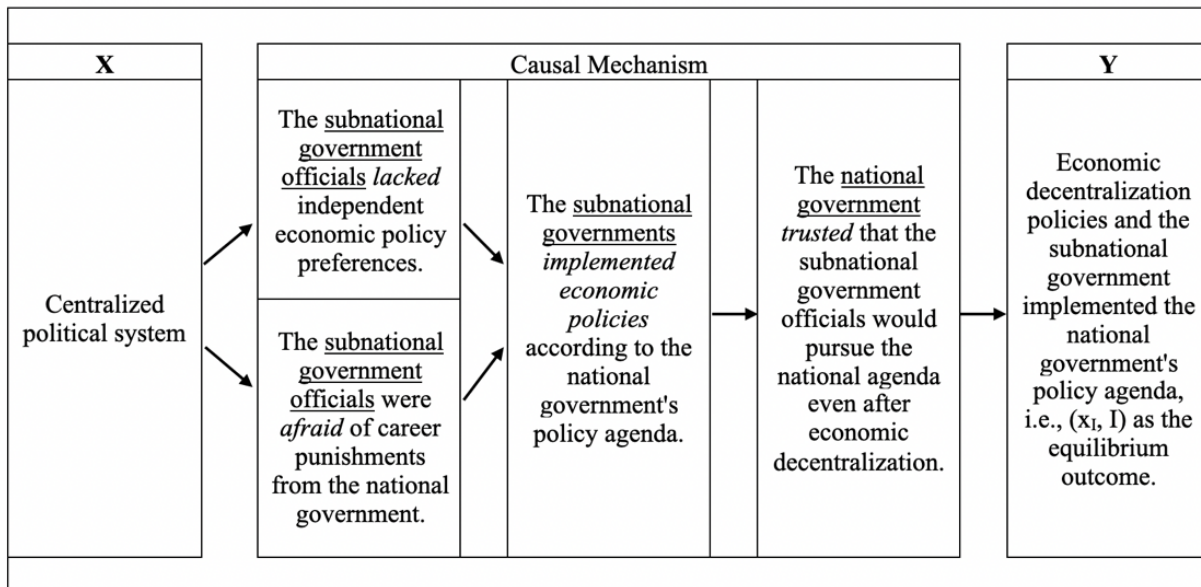
In summary, this section enumerates the important political events in a chronological order. In the following, I present the predicted causal mechanism that links a centralized political system and the economic decentralization policies during the Great Leap Forward and discuss the historical evidence for the causal mechanism.

4.3 PREDICTED CAUSAL MECHANISM

Based on the theoretical model in Chapter 2, I draw the causal mechanism between a centralized political system and the economic decentralization policies of the Great Leap Forward in Figure 4.1. The context of the Great Leap Forward implies a national government that greatly values subnational governments’ policy implementation. It is under this context that the theory predicts a high level of political centralization facilitated the economic decentralization policies through the links summarized in Figure 4.1.

The political system of the PRC prior to the Great Leap Forward is expected to be highly centralized, which means that the central government had strong political control over the local officials’ career. The high level of political centralization is expected to have the following two consequences: (1) the central government could appoint the personnel who shared the central leaders’ economic policy preferences. This is to say, the local officials lacked independent policy preferences and the policy preference divergence between the central and local governments was small. (2) The high level of political centralization implies that the central government had strong reward-punishment mechanism to induce the local officials to implement the central government’s economic policy agenda. As a result, the local officials were afraid of the career punishments imposed by the central government. These two factors together constituted the local officials’ high deviation thresholds, namely the local officials

Figure 4.1. The Predicted Causal Mechanism between Political Centralization and Economic Decentralization in China



were unlikely to deviate from the central government's economic policy agenda. Thus, the third link is that the local officials implemented the central government's economic policy agenda. As a result, the central government trusted that the local officials would implement the central policy agenda after the economic resources and authority were decentralized. This political trust functioned as a political condition for the central government that greatly valued the local governments' policy implementation to pursue economic decentralization policies. Finally, the theory predicts that under other hospitable socioeconomic factors, such as China's large geographic and population sizes and the central government valued economic development, the equilibrium outcome is that (1) the central government implemented the economic decentralization policies, while (2) the local officials still implemented the central government's economic policy agenda.

4.4 PROCESS-TRACING EVIDENCE

In this section, I test the expected causal mechanism in Figure 4.1 by examining the historical evidence for each link in each subsection.

4.4.1 Centralized Political System

The political system of the PRC established under the CPC leadership was centralized. The central government had strong political authority over the local governments, as a result of both the de jure guarantee offered by the interim constitution, namely the Common Program, and later the 1954 Constitution; and the de facto institutional capacity of the CPC.

4.4.1.1 Unitary Constitutions Right before the founding of the PRC, in September 1949, the CPC and other political parties held the First Chinese People’s Political Consultative Conference (CPPCC). On September 29, the Conference passed an interim constitution, entitled the Common Program of the CPPCC (*Zhongguo Renmin Zhengzhi Xieshang Huiyi Gongtong Gangling*). The Common Program was in effect until 1954, when the first constitution of the PRC was promulgated.

According to the Common Program (CPPCC, 1950), the central government had authority to determine the personnel of both the provisional military administrations in new liberated areas (before the civilian governments were established) and the civilian people’s governments. For the military governments, the Common Program stipulated that in the places recently liberated by the PLA, the central government or military and political organs at the front should appoint personnel to organize Military Control Commissions (*junshi guanzhi weiyuanhui*), before the civilian governments were established (Article 14). The central government should determine the duration of military control, according to the military and political conditions of the localities (Article 14). For the civilian governments, the Common Program stated that the local people’s congresses at each level should elect the people’s governments at their corresponding levels (Article 12), but “the appointment of the People’s Governments of each level shall be ratified by the People’s Government of the higher level”

(Article 15). In addition, “the People’s Governments of the lower levels shall obey the People’s Governments of the higher levels and all local People’s Governments throughout the country shall obey the Central People’s Government” (Article 15).

Moreover, the central government also had exclusive authority to determine the jurisdictions of the different levels of the governments. “The jurisdiction of the Central People’s Government and the local People’s Governments . . . shall be prescribed by decrees of the Central People’s Government Council” (Article 16).

In 1954, the First National People’s Congress (NPC) held its first session and passed the first constitution of the PRC,¹ which replaced the Common Program. It is believed that Mao was not eager to write such a constitution, but Stalin played a key role in persuading Mao to hold elections and promulgate the constitution as soon as possible to legitimize the communist regime. Once Mao agreed to writing the constitution, he was deeply involved in the drafting process (Li, 2001, pp. 34–43). Although Mao would like to establish a one-party system and the dictatorship of the proletariat, under the influence of Stalin, the 1954 Constitution was less radical (Li, 2001, p. 41). For instance, instead of establishing the dictatorship of the proletariat, in the preamble of the 1954 Constitution, it is stated that the PRC is a people’s democratic dictatorship (*renmin minzhu zhuanzheng*). In addition to the proletariat, the ruling classes of the people’s democratic dictatorship also included the peasantry, the petite bourgeoisie, and the national bourgeoisie. Rather than establish a one-party state, the preamble also allowed the political participation of the democratic political parties and groups, as part of the people’s democratic united front. In addition, the constitution did not mention the leadership of the CPC in the main text.²

With regard to the central government’s and local governments’ administrative authority, the 1954 Constitution established a top-down structure based on the principle of democratic centralism. The higher levels of governments had the power to revise or annul inappropriate

¹Since the establishment of the regime, the PRC has promulgated four constitutions in 1954, 1975, 1978, and 1982. The current constitution was enacted in 1982.

²The 1975 and 1978 Constitutions made changes on these two points. Both constitutions included the dictatorship of the proletariat and the leadership position of the CPC in Article 1 and Article 2 in the main texts. The original 1982 Constitution is similar to the 1954 Constitution, in that it again established the PRC as a people’s democratic dictatorship and did not include the CPC’s leadership in the main text. However, the 2018 amendments added that “the most essential feature of socialism with Chinese characteristics is the CPC’s leadership” (Article 1).

decisions issued by the lower levels—not only the people’s governments at the lower level but also the people’s congresses at the lower level. At the same time, the lower levels of governments should carry out the decisions issued by the higher levels. Specifically, according to the Constitution, the State Council, namely the Central People’s Government, had the power to “co-ordinate and lead the work of local administrative organs of state throughout the country” (Article 49, Section 4) and “to revise or annul inappropriate decisions and orders issued by local administrative organs of state” (Article 49, Section 6). The local people’s councils, namely the local people’s governments, “carry out the . . . decisions and orders issued by administrative organs of state at higher levels” (Article 64). “The people’s councils at county level and above direct the work of all their subordinate departments and of people’s councils at lower levels . . . The people’s councils at county level and above have power to suspend the carrying out of inappropriate decisions by people’s congresses at the next lower level; and to revise or annul inappropriate orders and directives issued by their subordinate departments, and inappropriate decisions and orders issued by people’s councils at lower levels” (Article 65). “The local people’s councils are responsible to . . . the administrative organs of state at the next higher level, and report to them. The local people’s councils throughout the country are administrative organs of state, and are subordinate to and under the co-ordinating direction of the State Council” (Article 66).

In terms of the personnel policies, unlike the Common Program, the 1954 Constitution did not formally grant the authority to elect the heads of the local governments to the local people’s congresses. The 1954 Constitution only stipulated that the NPC had the power “to elect the Chairman the Vice-Chairman of the People’s Republic of China” (Article 27, Section 4) and “to decide on the choice of the Premier of the State Council upon recommendation by the Chairman of the People’s Republic of China, and of the component members of the State Council upon recommendation by the Premier” (Article 27, Section 5). But it did not include articles with regard to the election mechanisms for the heads of the local governments. In practice, it was the CPC that determined the personnel of the local people’s governments.

In summary, both the Common Program (1949) and the 1954 Constitution established a unitary system and granted the central government the highest authority. Although the Common Program stipulated that the local governments should be elected by the local

people's congresses, the appointments required ratification from the higher level of the government. The 1954 Constitution dropped the article that the local governments should be elected by the local people's congresses. In addition, both the Common Program and the 1954 Constitution stipulated that the lower levels of governments should obey the decisions of the higher levels. The 1954 Constitution specifically added that the higher levels of governments could revise and annul the decisions issued by the lower levels.

4.4.1.2 Centralized CPC Prior to 1949 In addition to the de jure unitary constitutions, the highly centralized structure of the CPC also provided the de facto institutional conditions for the CPC to establish a politically centralized postrevolutionary regime. Contrary to the Mexican case discussed in the next chapter, the ruling party of the Chinese regime was founded much earlier than the establishment of the regime and acquired a centralized structure over the years prior to 1949. In the following I emphasize the evolution of the CPC's organizational centralization in three areas: the general party organization, the Party's control over the military, and the Party's control over the members' ideologies.

The centralization in these three areas was an intertwined process. For instance, the centralized structure of the general party organization facilitated the centralized control of the CPC over its armed forces and the central control over the members' ideologies. The other two aspects also contributed to the sustained centralized structure of the CPC. I discuss them separately only for the analytical purpose. To further explore their interaction is a worthwhile endeavor but beyond this dissertation's scope.

The CPC was founded in 1921. The original organization of the Party was decentralized, as a result of its bottom-up establishment process and grass-roots origins. In particular, its structure reflected the "influence of local study societies established in various cities by Marxist and anarchist intellectuals" (Sullivan, 1992, p. 71). But over the years from 1921 to 1949, multiple historical factors contributed to the building of a highly centralized CPC organization.

For instance, one factor was the rapid growth of its membership: from around 50 in 1921 to 57,000 in 1927, 1,200,000 in 1945, and 4,480,000 in 1949 (CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000a, p. 3 and

p. 10; [2000c](#), p. 1; [2000d](#), p. 1).³ The large size of the CPC membership demanded a more structured party organization to efficiently mobilize the party members, especially during the war period.

Secondly, the precarious political conditions also forced the CPC to develop a centralized organization. The Nationalist government under Chiang Kai-shek was especially hostile to the CPC. Prior to 1927, the KMT under the leadership of Sun Yat-sen allowed the CPC individuals to join the KMT as long as they supported the KMT's party ideology and adhered to the KMT's party discipline. But after the death of Sun, between 1927 and 1934, the rightist KMT leader, Chiang Kai-shek, initiated purges against the CPC members and later military campaigns against the CPC's Red Army that almost destroyed the CPC. The CPC was forced to undertake the Long March and reestablished itself in Yan'an, Shaanxi Province, in 1936. These harsh political conditions also led the CPC to develop a disciplined and centralized organization that finally helped the Party to survive.

Finally, the relatively stable environment during the Yan'an period (1936–1947) provided hospitable conditions for the CPC to further its centralization trend. It was during this period that Mao Zedong defeated his political rivals and became the ultimate authority within the CPC and Mao Zedong Thought became the CPC's official ideology. The Yan'an period helped the CPC to reach a peak of political centralization and prepared the Party for the regime establishment after 1949.

The CPC experienced its first major political centralization episode in 1927, as a response to both the growing party members in the mid-1920s and the increasingly hostile environment under the Nationalist government. In April 1927, the military forces led by Chiang Kai-shek carried out a violent purge of the CPC organizations in Shanghai. Responding to this emergency, the CPC held its Fifth National Congress from April 27 to May 9 in Wuhan, Hubei Province, during which it was proposed that the party constitution would be changed to adjust to the rapidly growing party membership. From May 9 to May 30, the Standing Committee of the CPC Central Committee (CPCCC) held several meetings and expanded and formed the Office of Secretary (*mishu ting*), the Organization Department (*zuzhi bu*), the

³During the late 1920s and early 1930s, the CPC membership decreased from 60,000 to 10,000, as a result of both the KMT's suppression and CPC's strategy of political strikes and urban insurrections ([CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000b](#), pp. 1–22).

Propaganda Department (*xuanchuan bu*), and the Military Department (*junshi bu*), among other working organs (CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000a, p. 32).

On June 1, 1927, the Politburo of the CPCCC passed the Third Amendment to the CPC Constitution,⁴ which systematically changed the CPC organization and strengthened the central authority. The amended party constitution incorporated the Leninist principles of democratic centralism. Based on the democratic centralism principles, the CPC Constitution set up specific rules with regard to: (1) the approval procedures of establishing party organizations; and (2) the relationship between the higher and lower levels of party organizations, and the departments that the different levels of party organizations should establish. Moreover, the Party Constitution also stipulated rules to set up party organizations corresponding to the administrative structure of the government, namely the Party Branches (*zhibu*) at the grassroots level, the District Party Committees (*qu wei*), the County (Municipal) Party Committees (*xian (shi) wei*), the Provincial Party Committees (*sheng wei*), and the Central Committee (*zhongyang weiyuanhui*) at the top level, replacing the previous Central Executive Committee (*zhongyang zhixing weiyuanhui*) (CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000a, pp. 32–33; CPCCC Politburo, 1989, Chapters 2 to 7, pp. 141–151). Finally, the CPC also formed investigation committees (*jiancha weiyuanhui*) at the central and provincial levels to ensure the consistency and authority of the Party (CPCCC Politburo, 1989, Chapter 8, p. 151). As a result of the centralization in 1927, “[a]t every level of the [party] apparatus, power was concentrated in the standing committees . . . which increasingly relied on investigation committees . . . to subject the rank and file to intense perusal” (Sullivan, 1992, p.72).

The antagonistic policies of the Nationalist government pushed the CPC to confront the KMT regime and actively engage in military mobilizations against the KMT’s suppression. In August 1927, the CPC led the Nanchang Uprising, which marked the establishment of the Workers’ and Peasants’ Red Army, the predecessor of the People’s Liberation Army (PLA). Initially, the CPC leadership under Li Lisan supported urban insurrections, but after

⁴It was the only time that the amendment to the CPC Constitution was not passed in the National Party Congress, but rather by the Politburo, because of the precarious political environment in 1927 (Gongchandangyuanwang, 2016).

several failed attempts in the late 1920s, the CPC shifted its focus to the rural areas in the 1930s. The shift of the CPC's strategic focus to "land revolution and armed struggle against the KMT regime" in the 1930s contributed to the formation of another distinct feature of the CPC's centralized organization, that is, the centralized control of the military forces. By 1949, at the central level, the CPC had the Central Military Commission (*zhonggong zhongyang junshi weiyuanhui* or *zhongyang junwei*, CMC), under the direct control of the CPCCC Politburo. The CMC then led the General Political Department (*zong zhengzhi bu*, GPD), which controlled the Political Commissar (PC) system that was responsible for the political work at different levels of the armed forces.

In May 1927, the CPC established the Central Military Department (*zhongyang junshi bu*, CMD). The Sixth National Congress of the CPC in 1928 decided that "all military affairs of the CPC should be led by the CPC CMD. The localities should establish the Military Commissions (*junshi weiyuanhui*), which are led by the local party organizations. On the military technological affairs, the Military Commissions should obey the CMD. The CMD and the local Military Commissions all obey the plan made by the CPCCC" (CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000b, pp. 95–96). In January 1929, the CPCCC Politburo formed the CMC to be led directly by the Politburo, but still confirmed that the CMD was the highest military leading organ. In 1930, the CPCCC Provisional Politburo decided to merge the CMD and the CMC and called the new organ the CPC CMC, under the direct leadership of the Politburo. In November 1931, the CPC established the Soviet Republic of China in Ruijin County, Jiangxi Province, and established the Central Revolutionary Military Commission (*zhongyang geming junshi weiyuanhui* or *zhongge junwei*, CRMC). The CRMC functioned both as a military leading organ of the CPCCC and of the provisional central government of the Soviet Republic of China (CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000b, pp. 96–97). As the CPCCC moved from Shanghai to Jiangxi in 1933, the CPC CMC merged with the CRMC and the organ was called the CRMC (Li, 2002, p. 55).

During the Anti-Japanese War period (1937–1945), the CPC and the KMT formed the Second United Front as an alliance against the Japanese invasion. As a result of this alliance,

the Red Army was regrouped into the New Fourth Army (*xinsijun*) and 8th Route Army (*balujun*) under the National Revolutionary Army, supposedly led by the KMT. But as a matter of fact, despite the alliance, the CPC did not give up its army to the KMT. Instead, it maintained its control over the army through the CRMC,⁵ its subordinate departments and the commission branches (*fenwei*) (CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000c, pp. 65–74). After the Anti-Japanese War ended, in August 1945, the CPCCC Politburo Enlarged Conference decided to elect a new CMC to confront the KMT. The leadership personnel remained the same during the Liberation War period, eventually leading the CPC to defeat the KMT and establish the PRC in 1949 (CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000d, p. 84).

Supporting the central military organ was a vertical organizational structure that ensured the policy implementation by the armed forces at the lower levels. One of the most crucial vertical organizations was the political commissar (PC) system, which the CPC learned from the Soviet model and developed.

As a military and political leader that led the Autumn Harvest Uprising in September 1927 in Hunan Province, Mao Zedong was a fervent advocate of strengthening the CPC's control of the Red Army, which was summarized in his famous quote, “political power grows out of the barrel of a gun.” At the famous Gutian Conference held in 1929, the party delegates of the Fourth Red Army led by Mao Zedong and Zhu De, passed a resolution that clarified the nature of the Red Army, namely “an armed force to execute the political tasks of the revolution” and decided that the Red Army must absolutely obey the leadership of the CPC (CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000b, pp. 2157–2158). From the Gutian Congress, the Political Commissar (*zhengzhi weiyuan* or *zhengwei*, PC) system, which represented the CPC in the Red Army at the regiment (*tuan*) level and above, took charge of the political affairs, education, personnel, security, and discipline of the army. Party branches were also established at the company (*lian*) level and the party branch secretary was given the title of “political

⁵The CRMC was called the “8th Route Army Yan'an Headquarter” (*“balujun yan'an zongbu”*) externally (CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000c, p. 65).

instructor” (*zhidaoyuan*), instead of a PC.

Mao’s rise and fall in the CPC leadership also influenced the development of the PC system. For instance, when he was criticized and marginalized by the CPC leadership in the Ningdu Conference in 1932, the political commissars were temporarily weakened while the military commanders were given more authority. But as the CPC’s strategy of urban insurrections failed and Mao regained the military leadership after the Zunyi Conference in 1935, the PC system was strengthened again. Throughout the PLA’s history, the PC system remained crucial for the CPC to control the PLA (Wortzel, 2002, pp. 226–231).

The third feature of the CPC’s centralized structure developed prior to 1949 was the center’s ideological dominance within the party, especially the supremacy of Mao Zedong Thought, which was established in 1945 as the official party ideology. Like the other two aspects of the centralized CPC (the Party’s organizational structure parallel to the administrative structure of the government and the centralized control over the military through the PC system), the central importance of ideology also bears resemblance to the Communist Party of the Soviet Union.

As Linden (1983) insightfully observed, there was a tendency towards “ideological despotism” in the original Marxism. Marxism distinguishes the “knowers,” who understand the science of humanity and are the only true revolutionary forces, from the rest of the society. The final liberation of humanity then depends on the leadership of the “knowers” who grasped the “science.” On the other hand, in practice, Marx’s theory of human history was not supposed to be understood fully by the ordinary workers. Instead, its intellectual complexity required a disciplined study that only a small group of intellectuals could afford. This leaves the task of leading the revolution to “a nucleus knower-intellectuals or theorists.” In this way, the original Marxism provided a justification for the institution of the Politburo as a “dominating ruling nucleus of the Soviet and other party-states” (Linden, 1983, pp. 12–23). As a result,

[a]lmost invariably the victor [of the power struggles for primacy within the Politburo] seeks the mantle of “theorist”—that is, a leader who can guide the regime’s practice with the authority of an unfailing Marxist knowledge (Linden, 1983, p. 24).

In the case of the Soviet, Lenin made use of these Marxist ideas and advanced “him-

self and those whom he gathered into his faction as heirs and possessors of the Marxian knowledge” (Linden, 1983, p. 32). Moreover,

Lenin makes the Marxian notion of the dictatorship the fulcrum of his revolutionary strategy. He concentrates all the energies of his faction on its attainment, and once it is attained makes it the animating principle of the party-state. The Politburo, the circle of revolutionary professionals, is the institutionalization of Marx’s notion of the theoretical guidance and practical direction of the proletariat by the special stratum of communists (Linden, 1983, p. 32).

Ideology was crucial for the CPC as well. Consistent with Linden (1983)’s observation about the Soviet Union, the policy differences since the 1920s within the CPC leadership were formulated in terms of the true or false interpretations of the science of Marxism. The victors of the power struggles claimed that they had the correct interpretations of Marxism while those who lost were considered to be deviating from the “truth.” Political purges within the CPC were thus justified on the ideological ground.

For instance, in the aftermath of the KMT’s suppression in 1927, with the guidance from the Communist International (Comintern) representative Vissarion Lominadze, the CPCCC held an emergency conference in Hankou, Hubei Province, known as the August Seven Emergency Conference (*baqi huiyi*). The founder of the CPC and the secretary general at the time, Chen Duxiu, was deposed during the meeting (CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000b, p. 2). In one of the conference reports, the nature of the failure suffered by the CPC was determined as a result of a huge opportunism mistake (*jihui zhuyi cuowu*) made by the party leadership, represented by Chen Duxiu. According to the report, this opportunism was a deviation from Marxism and Leninism. It made the party leadership lack the determination to act firmly, adopt false and non-revolutionary theories, and carry out non-revolutionary actions (CPC Central Executive Committee, 1989, p. 251; p. 279). Similarly, the downfall of the other leaders in the following years, such as Li Lisan, Zhang Guotao, and Wang Ming, was also justified on the ideological ground that their policies deviated from the “truth” of Marxism-Leninism.

The ideological centralization reached its peak in the 1940s, through the Yan’an Rectification Movement that finally made Mao Zedong Thought the CPC’s official ideology. Yan’an Rectification Movement lasted from 1942 to 1944. It was the first time that a polit-

ical movement was carried out by the whole party to implement the thought reform of all party members.

The movement targeted “three bad work styles”(zhengdun sanfeng), which included “subjectivism” (*chu kuan chu i*) in the study and analysis of problems, “sectarianism” (*tsung p’ai chu i*) in political life and organizational matters, and “stereotyped Party writing” or “formalism” (*tang pa ku*) in methods of expression (Teiwes, 1979, p. 67).

It formally began in Yan’an in February 1942, marked by Mao’s two speeches that laid down the guidelines for the movement. Later in June 1942, the CPCCC decided to extend the movement to various anti-Japanese base areas behind enemy lines, although the rectification measures were not strictly implemented due to the war conditions. By 1944, through the Rectification Movement, Mao Zedong successfully established his undebatable authority in the ideological sphere, by completely marginalizing the returned student group (*liusu pai*), such as Wang Ming and Zhang Wentian, who previously dominated the propaganda department (Teiwes, 1979, pp. 69–73). In the milestone Seventh National Congress held in 1945, Mao Zedong Thought was officially added to the party constitution: “the CPC takes the Mao Zedong Thought that integrated Marxist-Leninist theory with the practice of the Chinese revolution as the guideline for all its work” (CPC, 1991, p. 115). In the report on the revision of the party constitution, Liu Shaoqi emphasized that through the Rectification Movement, the CPC “has overcome various kinds of erroneous ideas and achieved unprecedented ideological, political and organizational unity and solidarity” (Liu, 1984, p. 318).

This section demonstrates that by 1949, when PRC was founded, the ruling party, namely the CPC, had obtained a highly centralized structure. This high level of political centralization manifested itself in the highly disciplined party organization, the party’s tight political control over its armed forces, and the center’s ideological control over the party members. The politically centralized ruling party facilitated a regime consolidation process and the creation of a politically centralized government.

4.4.1.3 Regime Consolidation Process (1949–1953) The three aspects of the centralized CPC sprior to 1949 (in Section 4.4.1.2) facilitated a rapid regime establishment and

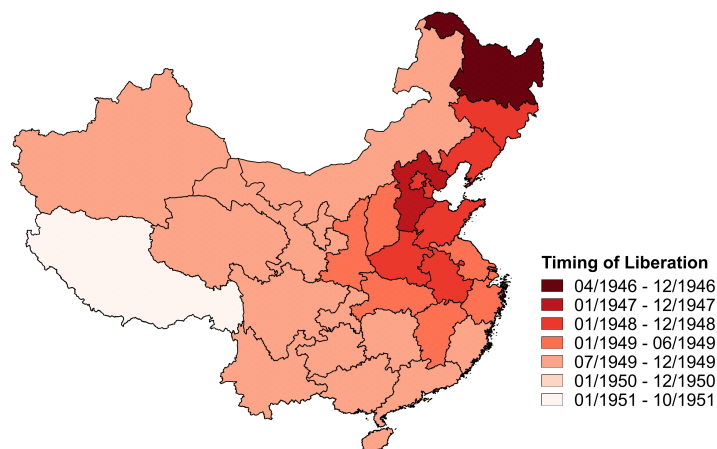
consolidation process that led to a centralized government structure by 1953. Particularly, the centralized organizational structure of the CPC that paralleled the administrative structure of the government set up in the Party Constitution of the Fifth National Congress (1927) ensured that the CPC permeated through all levels of government from the central level to the village level. The CPC's centralized control over the armed forces ensured that the military forces obeyed the CPC's order to install the system desired by the CPC. Finally, the CPC continued to value the ideological unity of the party members, who now became the government officials. As the regime consolidation process approached to an end in 1953, the CPC established a multi-level government that was to a great extent a duplicate of the CPC. The new political regime of the PRC thus retained the nature of high political centralization of the CPC. The central government now had a strong political control over the appointment and removal of the local government officials.

Prior to 1949, the CPC's presence in China was regionally heterogeneous. Specifically the Party had a stronger presence in the north of China than the south. Based on the timing of the revolutionary victories, which is shown in Figure 4.2, the party leadership categorized China into two types of areas, which are the "old liberated areas" and the "new liberated areas."

The old liberated areas refer to the areas where the CPC had established its power before 1947 and 1948. They include North China, the Northeast, and parts of the Northwest and East China. In these areas, the CPC had a strong organizational presence and had made substantial progress in social reform programs that lent it mass support among the rural society. The new liberated areas are the areas where the Party lacked organizational resources and mass support. They include much of East and Central China, the overwhelming portion of the Northwest, and the south of the Yangtze. The Party gained control over these regions mostly by military conquest instead of revolutionary social programs (Teiwes, 2011, pp. 21–22).

In 1949, as a transition measure, six greater administrative areas (*da xingzheng qu*) above the provincial level were established, which included North China, the Northeast, East China, the Central and South, the Northwest, and the Southwest. For each greater administrative area, a CPC's bureau (*zhonggong zhongyang ju*) was set up to ensure the party center's

Figure 4.2. The Timing of the Liberation



This map shows the timing of the liberation of each provincial capital.

Source: [Renminwang](#) (N.d.).

control over the area ([CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000e](#), p. 3). Among the six areas, the new liberated areas, such as the Central and South, East China, the Northwest, and the Southwest, were run by military-administrative committees, because these regions fell to the PLA only recently and the regime's first task was to eliminate the remaining bandit opposition. In contrast, in the old liberated areas, such as North China and the Northeast, because the Party had already built strong mass support through social reforms and did not need the military-administrative committees, the CPC directly established people's governments. It did not take long for all administration to transition from military to civilian rule. By 1951, the functions of the Military Control Commissions were "largely reduced to security and garrison matters as local governments now issued decrees alone" ([Teiwes, 2011](#), pp. 29–30). In 1954, the system of six greater administrative areas was abolished, whereby the central government began to administer the provinces without an intermediary level.

The CPC's tight political control over the PLA was crucial for this rapid regime consol-

idation process, especially when we compare it with the Mexican case that will be discussed in the next chapter. In the Mexican case, the consolidation of the postrevolutionary regime took a much longer period partly due to the decentralized military forces which were controlled by regional strongmen without a central authority.

In addition to the the six CPC bureaus corresponding to the six greater administrative areas, in 1949, the CPC also set up four CPC Branches (*zhonggong zhongyang fenju*), 24 Provincial Party Committees (*sheng wei*), 17 Regional Party Committees (*qu dang wei*), 134 Municipal Party Committees (*shi wei*) (including the 6 Municipal Party Committees directly under the CPCCC), 218 Prefecture (League) Party Committees (*di (meng) wei*), 2,142 County (Banner) Party Committees (*xian (qi) wei*), 15,494 District Party Committees (*qu wei*), and around 200,000 Party Branches. The Party Committees were established to be the highest responsible organs (*zuigao fuze jiguan*) at their respective administrative levels and had the unified leadership over the work in their localities ([CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000e](#), p. 3). In terms of the personnel, the CPC maintained the unified leadership style (*yiyuanhua lingdao*) that it developed during the war period. The Party Committee members directly led local governance in all issue areas, including the party, government, military, and people (*dang zheng jun min*).

Along with the organizational installation, the CPC led three major movements to solidify the new regime's control over the society, including the land reform (1950–1953) in rural areas, the suppression of the counter-revolutionaries (1950–1953), and the Three-anti and Five-anti Campaigns (1951–1952) in urban areas.

Land reform was a central element of the CPC's successful strategy during the war period, which was to focus on the rural areas and build popular support and establish bases there. This strategy helped the CPC to build its strength during the Anti-Japanese War in the late 1930s and early 1940s and defeat the KMT during the civil war after 1945. Thus, by 1949, the CPC had already implemented land reform in the old liberated areas. During the period from 1950 to 1953, the CPC-led government continued these land reform policies in the new liberated areas. Initially, the PLA units went to the countryside, suppressed the bandits, disarmed the local population, and carried out security functions. The CPC then

sent small groups, often composed of students, urban intellectuals, “young rural intellectuals with family ties to landlords and rich peasants, urban unemployed, and, where available, local Communist underground workers” to the villages to carry out the land reform. In the early stage, these small groups sought to collect taxes, organize peasant associations, carry out a program of rent and interest reduction, and conduct struggles against the old elite. In the second stage, the county-level land reform committees dispatched work teams to identify the classes of all village inhabitants and confiscate and redistribute the landlord lands based on the central government’s guidelines in 1950 (Teiwes, 2011, pp. 34–36).

Consequently, the land reform “succeeded in redistributing about 43 percent of China’s cultivated land to about 60 percent of the rural population.” Politically, the old elite of the landlords was weakened and replaced by a new elite of village cadres drawn from poor and middle peasants, who also adopted the CPC’s ideologies. The CPC’s propaganda machinery also played an important role in the implementation of the land reform (Teiwes, 2011, p. 37).

In urban areas, the CPC led the campaign to suppress the counterrevolutionaries and the Three-anti and Five-anti campaigns. As a measure to defend the new regime against the potential comeback of the KMT forces, Mao decided to “kill all those reactionary elements who deserve to be killed.” The main targets of the suppression of the counterrevolutionaries were “former members of the KMT and KMT-linked organizations, as well as secret society leaders.” In addition, from 1951 to 1952, the new regime also initiated the Three-anti Campaign that aimed to combat corruption, waste, and bureaucratism (*fantanwu*, *fanlangfei*, *fan guanliao zhuyi*) among the urban cadres, and the Five-anti Campaign that were against bribery, theft of state property, tax evasion, cheating on government contracts, and stealing state economic information among the urban bourgeoisie. According to Teiwes (2011), these three urban movements attacked and severely weakened the urban non-Communist social forces and their values. Moreover, they also reshuffled the personnel at the lower-level positions in economic enterprises and government, replacing the non-Communist forces with worker activists (Teiwes, 2011, pp. 39–40).

This section shows how the CPC’s centralized control facilitated a rapid regime consolidation process and resulted in a politically centralized political system that was led by and

also resembled the essential features of the CPC. By 1953, the regime consolidation process had been completed. With the machinery of the CPC, the central party leaders, who were now also the government heads, obtained absolute authority over the personnel at the local levels.

So far, I have shown that the evidence supports that China established a centralized system quickly after the founding of the postrevolutionary regime in 1949. Not only did the constitutions guarantee a centralized system, the political conditions also led to a de facto centralized system. I specifically emphasize the key role played by the centralized Marxist-Leninist CPC. The fact that the CPC was established more than two decades earlier than the regime establishment proved to be critical for the centralized nature of the postrevolutionary regime. Specifically, the CPC became highly centralized during the two decades. During the war periods, it developed a centralized and disciplined organization, formed a military force that was under its tight political control, and achieved a high level of ideological unity under Mao's central leadership. After the CPC defeated the KMT during the civil war, these characteristics of the CPC helped the Party to rapidly establish and consolidate a regime with CPC organs at each level of the governments, from the central level down to the village level. By making the members of the Party Committees at each level of the governments take government leadership positions and take charge of all government affairs, the CPC's centralized structure, especially its tight organization and strong discipline, directly translated into the central government's political control over the local government officials. These pieces of evidence hence support the first link in the causal mechanism in Figure 4.1 that China had a centralized political system.

4.4.2 SNG: High Deviation Thresholds

This section presents the evidence for the second pair of links in the causal mechanism: (1) the provincial governments had similar policy preferences as the central government; and (2) the provincial officials had strong career incentives to pursue the central government's economic policy agenda.

4.4.2.1 SNG: Similar Policy Preferences The centralized political system, combined with the CPC’s heavy emphasis on ideological unity among the party members during this period, together caused the “survival of the most like-minded.” The local officials who shared the policy preferences with the central government, especially with the personal leader Chairman Mao Zedong, stayed in power while those who held their own relatively independent policy preferences were purged. There were two main mechanisms that the central party leaders employed to increase the ideological unity with the party-state: (1) the central leaders imposed the personnel that shared central governments’ policy preferences as leaders of the local governments; (2) the central leaders initiated a sequence of political movements that specifically aimed to unify the minds of the local leaders. These two measures directly led to a reduction of the policy preference divergence between the central government and the local governments, by purging certain independent-minded regional leaders and deterring the rest.

Two aspects of the CPC and the party-state it founded facilitated the preference convergence process: firstly, coherently adhering to the official party ideology was an inherent feature of the CPC, especially during this period, so the party leaders had *incentives* to pursue ideological unity within the Party; and secondly, the high level of political centralization of the Party provided the *organizational capacity* which enabled the Party to directly replace local leaders who were not in line with the central leadership, using specific campaigns involving “rectification” and “purging.”

a. Challenges to Ideological Unity

As discussed earlier, like other Communist parties, the CPC had always emphasized the ideological aspect since its founding. Especially, since the mid-1940s, the Yan’an Rectification Movement led the CPC to achieve an unprecedented level of ideological unity. Through the movement, Mao Zedong became the paramount party leader with the Mao Zedong Thought reaching the same status as Marxism-Leninism and being incorporated into the party constitution as the official party ideology. Thus, it was natural for Mao to place great emphasis on unifying the minds of party members to conform to his own ideas since the late 1940s. In fact, in both writings and speeches, Mao had repeatedly stressed the role of ideological unity in party-building (Yu, 2017).

On the other hand, the historical process of the revolution and the subsequent regime consolidation produced several outcomes that challenged ideological unity, including: (1) to rule the vast country, the Party recruited a significant number of new members in a short period of time; and (2) to combat the KMT's army, the CPC sent its army from the north (the old liberated areas) to the south (the new liberated areas) and the CPC personnel from the north later assumed governing positions in the south. These outcomes challenged the ideological unity of the CPC for the following reasons.

The recruitment of new members challenged the ideological unity, firstly, because the lack of revolutionary experience of the new members made them less committed to the revolutionary causes of the CPC, at least this was the anticipation and concern of the party leadership. According to the official account, the Party recruited about two million new party members around the first years of the regime. "Many of these two million new party members did not have pure ideological styles (*sixiang zuofeng*) and had not had the opportunity to receive systematic education or training" (CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000e, p. 4).

Secondly, the appointment and promotion of the new members triggered frustration among the old members who believed they should be treated differently due to their sacrifice during the wars. "The depth of these frustrations was reflected in a saying attributed to old cadres: 'Old revolutionaries were treated worse than new revolutionaries; new revolutionaries were treated worse than non-revolutionaries; and non-revolutionaries were treated worse than counterrevolutionaries'" (Teiwes, 1979, p. 126). Moreover, as the CPC shifted its task from fighting for regime control to governing, in the eyes of the party leadership, the old cadres faced other ideological challenges. According to the official account, among the old party members and old cadres, some became conceited and self-satisfied as war heroes. These sentiments encouraged bureaucratism, commandism, and even very serious problems, such as corruption, political degeneration, political decay, and violation of laws and disciplines (CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000e, p. 4).

In addition to the division between the new and old members, the revolutionary process also created a disunity in the new liberated areas between the native cadres (*bendi ganbu*)

and the cadres sent from the north (*nanxia ganbu*). After liberating the Northeast and North China in early 1949, field armies from the old liberated areas were sent to the south. With the assistance of local guerrilla forces that remained in the south since the 1930s,⁶ the field armies from the north liberated southern provinces, such as Zhejiang, Fujian, and Guangdong. Along with the field armies, old cadres were also sent from the old liberated areas to the new liberated areas. One important reason for the CPC to send the old cadres was that the old cadres from the north had previous experience in governing, especially in implementing the land reform. Zhang and Liu (2016, p. 46) also point out a second reason for sending northern cadres to the south: compared to the leaders of the southern guerrilla forces, the cadres from the north enjoyed higher trust by the Party's central leadership, because they had maintained a much closer contact with the party center throughout the 1930s and 1940s.⁷

Similar to the personnel conflicts which arose between the old and new cadres discussed earlier, in the new liberated areas, personnel conflicts arose between the native cadres who had always been fighting in the south and the northern cadres who were sent down only after 1949. For instance, the northern cadres in Fujian Province often despised native cadres, because they believed they were more experienced and competent than the native cadres (Zhong, 2013, p. 22). These personnel and political conflicts extended to the policy and ideological spheres. In particular, in the early 1950s the native cadres were more likely to adopt a pragmatic approach to land reform, i.e., to pursue collectivization in a gradual manner; while the northern cadres, due to their lack of local connections, often adopted a more radical approach. This policy preference difference showed up in several southern provinces, including Zhejiang (Zhang and Liu, 2016) and Guangdong (Han, 2004).

b. Rectification Campaigns to Increase Ideological Unity

⁶The CPC initially had military bases in the south. But in the early 1930s, the KMT launched a series of encirclement campaigns (*weijiao*) against the CPC forces, eventually driving the party center and its armies to embark the Long March and later establish its base in Yan'an, Shaanxi. However, there were army units that stayed in the south and engaged in guerrilla warfare against the KMT throughout the 1930s and 1940s, except in a short time period (1937–1941) when these guerrilla forces were grouped as the New Fourth Army during the brief alliance between the CPC and the KMT to defeat the Japanese invasion.

⁷Zhang and Liu (2016, p. 46) add that one of the leaders of the New Fourth Army, Xiang Ying, was very close to Wang Ming, who was Mao's political rival but lost his influence after Yan'an Rectification Movement. This could make the guerrilla forces even less trustworthy in the eyes of the party leadership in 1949.

Because ideological disunity as a reality did not match the party leadership's aim of achieving ideological unity, the CPC launched a series of political and ideological campaigns in the 1950s leading up to the Great Leap Forward. The high level of political centralization of the CPC proved to be essential in the "successful" implementation of such campaigns. They were considered "successful" in the sense that no rebellion was observed and they indeed created a certain level of ideological unity among the party members, including the regional leaders.

As mentioned earlier, Mao as the paramount leader had been using "rectification (*zhengfeng*)" and "purges (*qingxi*)" to defeat political rivals and unify the party ideology before 1949. One of the most influential campaigns was the Yan'an Rectification Movement, which was led by Mao and helped him consolidate his authority and incorporate his thoughts into the Party Constitution. After the founding of the PRC, due to the new ideological challenges, the Party implemented a series of rectification campaigns to unify the ideologies of the cadres as well as other groups of the society. These movements include a rectification campaign (*zhengfeng yundong*) in 1950, a rectification movement (*zhengdang yundong*) which lasted from early 1951 to early 1954 and included the Three-Anti Campaign of 1951–52 and New Three-Anti Campaign of 1953, and a new rectification campaign (*zhengfeng yundong*) which started in April 1957 and later led to the Anti-Rightist Struggle (*fanyoupai douzheng*). Both the rectification campaign and the Anti-Rightist Struggle ended in the summer of 1958.

These above-mentioned rectification campaigns vary in their duration and intensity, but they share a common goal, which is to educate the heterogeneous party members, both old and new, in order to transform the "backward" behaviors and values inconsistent with Communism. For instance, the rectification campaign of 1950 aimed to improve the ideological level and political level of the cadres and the rank and file party members. The Three-Anti Campaign of the rectification movement from 1951 to 1952 aimed to combat corruption, waste, and bureaucratism (*fantanwu, fanlangfei, fan guanliao zhuyi*). The New Three-Anti Campaign of 1953 was against bureaucratism, commandism and violations of law and discipline (*fan guanliao zhuyi, fan mingling zhuyi, fan weifa luanji*). The new rectification campaign (*zhengfeng yundong*) from 1957 to 1958 targeted bureaucratism, factionalism, and subjectivism (*guanliao zhuyi, zongpai zhuyi, zhuguan zhuyi*).

c. Anti-Localism Movement

With regard to reducing the local cadres' independent policy preferences, the “anti-localism movement” that swept the new liberated areas was particularly relevant. During the anti-localism movement, the CPC conducted systematic purges against the native cadres who were more locally oriented and promoted those cadres sent from the north, who were more likely to support the central government's directives. These native cadres being purged ranked from as high as Provincial Party Secretaries to the County Party Secretaries and County Heads (*xian zhang*). These anti-localism purges played a crucial role in reducing the policy preference divergence between the central and local governments.

Guangdong Province, the most southern province of China (see Figure 4.3), was the first one that weathered the “anti-localism” movement. Its experience can shed light on the mentalities of the central and local government officials and how the high level of political centralization of the CPC facilitated the reduction of the policy preference divergence between the central and local governments.

Figure 4.3. Guangdong Province



Hainan was under the administration of Guangdong Province before 1988.

Before and during the Great Leap Forward, Guangdong experienced two waves of anti-localism movement: one lasted between 1952 and 1953 and the other started in 1957 and

lasted until 1962.

In the first wave, the central leadership charged Fang Fang, the then Third Party Secretary of the South China Branch (*huanan fenju*),⁸ to have committed two mistakes: right-deviation (*youqing*) in pursuing land reform; and localism in dealing with cadre appointment issues (Chen, 2001, p. 27). Fang Fang was demoted from the Third Party Secretary, at first to the Fifth Party Secretary in 1952 and then to the Minister of Transportation of the South China Branch in 1953. In 1955, Fang Fang was transferred away from Guangdong to be the Vice Minister of the United Front Work Department of the CPC and in charge of overseas Chinese affairs.

Fang Fang was born in Puning, Guangdong, in 1904. He became a party member in 1926. In 1932, as a county party secretary, he led counter encirclement campaigns in western Fujian's Soviet areas. After the party leaders began the Long March, Fang Fang stayed in the south and engaged in guerrilla warfares in Southwestern Fujian. Between 1934 and 1949 except the short period of the Second United Front, Fang Fang was unable to maintain close contact with the party leadership in Yan'an. Despite the challenges posed by the KMT, Fang Fang helped establish seven guerrilla columns in seven southern provinces. In September 1949, the cadres sent from northern China, including Ye Jianying,⁹ arrived in Jiangxi Province, where they joined local guerrilla leaders, including Fang Fang, and formed the South China Branch, of which Ye Jianying was the First Party Secretary, and Fang Fang became the Third Party Secretary (Zhang and Liu, 1995).

Like in other new liberated areas, the northern cadres constituted a significant portion of the new government in Guangdong Province. For instance, in Guangzhou, the capital city of Guangdong, at the beginning of its liberation in 1949, the total number of cadres was 5,618. Among them, 39% were non-native cadres, including both northern cadres and northern army personnel who became local government cadres after the war. Only 3,436 (61%) were cadres drawn from the personnel who were originally in the south as guerrilla

⁸Guangdong Province did not have a Provincial Party Committee before 1955, because Guangdong was led directly by the South China Branch, which was in turn led by the CSCB (Central and South China Bureau) (*zhongnan ju*). In 1954, the CSCB was revoked. In 1955, the South China Branch was abolished and the Guangdong Provincial Party Committee was established.

⁹Ye Jianying was born in Guangdong. Unlike Fang Fang, Ye participated in the Long March and worked closely with other central party leaders in the north.

forces or underground party members (CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000e, p. 197).

The heterogeneous composition of cadres in Guangdong Province also created divergent policy preferences. The native cadres, including both Fang Fang and Ye Jianying (born in Guangdong), emphasized Guangdong's special local conditions, such as its closeness to Hong Kong and Macau, being home to many overseas Chinese, and relatively developed industry and commerce, and preferred to protect the interests of overseas Chinese and the industry and commerce (Zhang and Liu, 1995, p. 35). For instance, when carrying out the land reform, the native cadres often preferred a gradual approach, to limit mass mobilization and maintain order. As the Third Party Secretary, Fang Fang was in charge of land reform. In 1951, in a report where Fang Fang summarized the land reform progress in the three pilot counties, he stated that the masses were generally mobilized, while at the same time, land reform did not encroach on industry and commerce, did not harm the middle peasants, did not engage in disorderly killing, reserved rich peasant economy, and showed consideration for overseas Chinese, etc. (Song, 2007).

The northern cadres, on the other hand, due to a lack of both local knowledge and local connections, preferred a more radical approach. They complained that the land reform in Guangdong did not mobilize the masses, neither did the land reform topple the land owners and local tyrants. They believed that land reform should use violent methods in order to bring the land owners to ruin (Song, 2007).

The CSCB, which directly administered the South China Branch, suspected that the slow speed of land reform and the lack of mass mobilization in Guangdong were results of the impurity of the cadres. They contended that some local cadres' close connections with landowners, previous bureaucrats, KMT, and capitalist overseas Chinese were the reasons for the "peaceful land reform" (*heping tugai*) (Song, 2007). The central party leadership, Mao in particular, believed the CSCB's judgement and decided to reshuffle the local personnel. Specifically, the Party sent Zhao Ziyang from Henan Province to Guangdong in April 1951 to lead land reform. Meanwhile, both the party center and the CSCB criticized the South China Branch for its gradual approach to land reform. A new wave of more radical land reform hence began and the northern cadres became more influential in this process. Mass

mobilization created disorder and violence on the ground. Although the native cadres, such as Ye Jianying and Fang Fang, attempted to moderate the process, they soon received harsh criticisms from the CSCB (Song, 2007).

In December 1951, the CSCB sent Tao Zhu from Guangxi Province to Guangdong to replace Fang Fang and lead the land reform. The CSCB then implemented massive purges in Guangdong. By May 1952, the whole province punished 6515 “localism” cadres (Chen, 2001, p. 27). During that time, the CSCB proposed the guiding principle of “relying on the army, relying on the cadres from the north, and letting the army and the northern cadres take command.” Henceforth, the leaders—the first in command (*yibashou*)—of the Party Committees at all local levels were selected from the army and/or the northern cadres (Song, 2007).

In 1952, Ye Jianying and Fang Fang attended a meeting in Beijing chaired by Mao Zedong, during which Mao criticized both of them for the slow speed of land reform in Guangdong. Fang Fang was later demoted to the Fifth Party Secretary of South China Branch. In 1953, during the New Three-Anti Campaign, Fang Fang became a target again for his alleged “bureaucratism” (*guanliao zhuyi*) and “decentralism” (*fensan zhuyi*). With Mao’s approval, Fang Fang was removed from the Party Committee of the South China Branch. In 1955, Fang Fang was transferred to the Committee of Overseas Chinese Affairs (Zhang and Liu, 1995, p. 37).¹⁰

Amid the new rectification campaign that started in 1957,¹¹ some cadres voiced their discontent with the previous anti-right deviation and anti-localism movements and demanded reconsideration of the unfair punishments. The Provincial Party Committee, on the other hand, regarded such grievances as a revival of localism and therefore decided to launch a second wave of anti-localism movement whilst the Anti-Rightist Struggle (Chen, 2001, p.

¹⁰During the Cultural Revolution, Fang Fang was attacked again and died in 1971.

¹¹This new rectification campaign (*zhengfeng yundong*) happened after the Eighth Congress of the CPC (1956), when Mao judged that China’s socialist revolution had achieved a decisive victory and there were no more “contradictions between ourselves and the enemy (*diwo maodun*)”; instead, there were only “contradictions among the people (*renmin neibu maodun*).” Because of this judgment, Mao confidently decided to allow non-party members to participate in the new rectification campaign and criticize the Party. The high level of openness did not last long. The amount and severity of the criticisms received by the Party exceeded Mao’s expectations. Within months, the new rectification campaign was turned into the Anti-Rightist Struggle. The main task changed from correcting party members’ ideologies and behaviors to fighting against the “rightists,” who were alleged to be the enemies of the new regime.

28).

This wave of anti-localism movement again punished “localism” cadres at all levels of Guangdong Province. Among the top provincial leaders, Gu Dacun (Deputy Provincial Party Secretary) and Feng Baiju (Deputy Provincial Governor) were labeled and criticized as an “Anti-Party Localist Group” (*difang zhuyi fandang jituan*). In April 1958, Gu Dacun was removed from office and Feng Baiju was demoted to the countryside for rectification.¹²

It is debatable whether the native cadres, such as Fang Fang, Gu Dacun, and Feng Baiju, indeed intentionally defied the central government and purposefully adopted localist land reform and personnel policies. In the eyes of the central leadership at the time, they pursued such policies. The central leadership of the CPC, which was a heavily ideological party led by an idealist revolutionary Mao Zedong, was indeed concerned about the consequences of “localism.” With the centralized party organization, the center was able to either demote the “localist” cadres or remove them from office, while at the same time appointing the cadres that shared the central government’s policy preferences, such as Tao Zhu, Zhao Ziyang, and non-native personnel from the army and northern cadres.

The personnel reshuffling brought by the two waves of anti-localism had an impact on the county level, shown by an example of Mei Xian, a county in northeastern Guangdong, where Ye Jianying was born.

Table 4.1 shows the Party Secretaries of the County Party Committee from 1949 to 1962, including the native places of the First Party Secretaries (*di yi shuji*) and the non-native Party Secretaries’ share among all Party Secretaries in a given year. As Table 4.1 shows, the two First Party Secretaries before 1952, Liu Jian and He Yongwei, were both native cadres. The first wave of anti-localism movement in 1952 changed this pattern. From 1952 to 1955, the county was led by two First Party Secretaries from the northern provinces, Yu Zong from Henan province and Huang Qingbo from Hebei province. In 1956, the party leadership role returned to a native cadre, Yang Yang, for two years. The second wave of anti-localism movement in 1957 again brought the northern cadres to power. Since 1958, the County Party Committee was led by Sun Jingye from Shandong province and Zhang Zhengfu from

¹²Chen (2001) and Han (2004) detail the stories of how Gu Dacun and Feng Baiju were accused of localism and punished in the 1950s respectively.

Table 4.1. The Native Places of the First Party Secretaries and the Percent of Non-Native Party Secretaries in Meixian, Guangdong (1949–1962)

Year	First PS	First PS's Native Place	% of Non-Native PS	No. of PS
1949	Liu Jian	Guangdong	0.00%	2
1950	He Yongwei	Guangdong	0.00%	1
1951	He Yongwei	Guangdong	0.00%	1
1952	Yu Zong	Henan	100.00%	3
1953	Yu Zong	Henan	100.00%	2
1954	Huang Qingbo	Hebei	33.3% ¹	4
1955	Huang Qingbo	Hebei	66.7% ¹	4
1956	Yang Yang	Guangdong	40.00%	5
1957	Yang Yang	Guangdong	40.00%	5
1958	Sun Jingye	Shandong	100.00%	5
1959	Zhang Zhengfu	Shanxi	75.00%	8
1960	Zhang Zhengfu	Shanxi	62.50%	8
1961	Zhang Zhengfu	Shanxi	66.70%	6
1962	Zhang Zhengfu	Shanxi	66.7% ¹	7

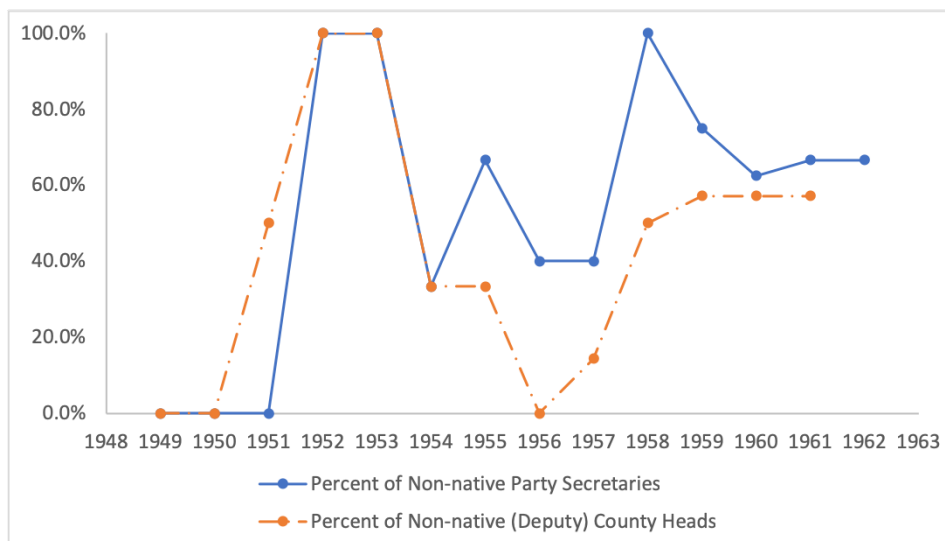
¹ For the years of 1954, 1955, and 1962, among the 4, 4, and 7 Party Secretaries respectively, there was one Party Secretary whose native place was not recorded in the gazetteer. For these three years, I calculated the share using the rest Party Secretaries' information.

Notes: The table is constructed based on the Party Secretaries that in office on December 31 for each year.

Source: [Guangdong Provincial Local Gazetteer Editing and Compiling Committee \(1995, pp. 667–669\)](#).

Shanxi province.

Figure 4.4. The Share of Non-Native Party Secretaries and Non-Native (Deputy) County Heads in Meixian, Guangdong (1949–1962)



Source: Guangdong Provincial Local Gazetteer Editing and Compiling Committee (1995, pp. 667–669; pp. 752–753).

The share of non-native Party Secretaries among all Party Secretaries in Table 4.1 confirms the impact of the anti-localism movement in this county. The solid line in Figure 4.4 plots the non-native Party Secretaries' share from 1949 to 1962. In 1952, namely during the first wave anti-localism movement, all three Party Secretaries were from the northern provinces (Henan, Shanxi, and Hebei). The share decreased in 1954 and stayed at 40% in 1956 and 1957. But the second wave anti-localism movement again boosted the share of non-native Party Secretaries to 100% in 1958. Throughout the Great Leap Forward, the non-native Party Secretaries' share stayed above 60%.

Table 4.2 shows the native places of the County Heads over the years and the non-native (Deputy) County Heads' share among all County Heads.¹³ Following a similar pattern as the Party Secretaries, the northern cadres became the County Heads during the anti-localism movement. In December 1952, the County Head was Huang Qingbo from Hebei province. He stayed as County Head for two years. Between 1954 and 1957, this county had three

¹³The total number of County Heads in each year, which often included one County Head and a varying number of Deputy County Heads (*fu xian zhang*), increased from one or two during the period from 1949 to 1953 to around seven during 1957 to 1962, see Table 4.2.

Table 4.2. The Native Places of County Heads and Percent of Non-Native (Deputy) County Heads in Meixian, Guangdong (1949–1962)

Year	County Head	CH's Native Place	% of Non-native (D)CH	# of (D)CH
1949	Wang Zhi'an	Guangdong	0.00%	2
1950	Wang Zhi'an	Guangdong	0.00%	2
1951	Lai Yunru	Guangdong	50.00%	2
1952	Huang Qingbo	Hebei	100.00%	1
1953	Huang Qingbo	Hebei	100.00%	1
1954	Yang Yang	Guangdong	33.30%	3
1955	Ren Qingran	Hebei	33.30%	3
1956	Chen Jian	Guangdong	0.00%	3
1957	Ye Fen	Guangdong	14.30%	7
1958	Xu Jinyi	Shandong	50.00%	6
1959	Xu Jinyi	Shandong	57.1% ¹	7
	Song Jinying	Hebei		
1960	Song Jinying	Hebei	57.10%	7
1961	Song Jinying	Hebei	57.10%	7
1962	Song Jinying	Hebei	57.10%	7

¹ For Year 1959, there were two County Heads.

Notes: This table is constructed based on the County Heads who were in office on December 31 for each year.

Source: [Guangdong Provincial Local Gazetteer Editing and Compiling Committee \(1995, pp. 752–753\)](#).

County Heads who were native cadres. But the second wave anti-localism movement brought in a cadre from Shandong province as the County Head, who was followed by a cadre from Hebei.

The non-native County Heads' share also followed a similar trend, shown in Table 4.2 and the dash line Figure 4.4. Specifically, all County Heads were native in 1949 and 1950. During the first wave anti-localism movement, the share increased to 100%, as in 1952 and 1953 the county government only had one County Head from Hebei and none Deputy County Head. The share went down to between 33.3% and 0% from 1954 to 1957. Then the second wave anti-localism movement raised the non-native County Heads' share to 50% in 1958 and stayed at 57% from 1959 to 1962, ensuring the non-native cadres' majority in the county government leadership. Figure 4.4 also shows an interesting pattern that most of the time the County Heads positions were more native than the Party Secretary positions, except in 1951.

The county gazetteer did not document the first wave anti-localism. But according to the gazetteer, the County Party Committee carried out an anti-localism struggle in April 1958. The First Party Secretary, two Party Secretaries, and one Deputy County Head were punished for organizing an "Anti-Party Localist Group" ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), pp. 674–675).

The example of anti-localism in Guangdong Province shows how the centralized political system was able to shape local officials' policy preferences and reduce the policy preference divergence between the central and local governments. The northern cadres were sent along with the northern armies to liberate Guangdong Province, and ensured the CPC's leadership from the beginning. After the regime was consolidated, as the central government perceived the different policy preferences held by the local officials, it led an anti-localism movement that reshuffled the local leadership from the provincial level to the county level, replacing native cadres who were often more locally oriented with non-native cadres, especially cadres from the northern provinces, who were more inclined to carry out the central policy directives.

The first wave of anti-localism movement in Guangdong between 1952 and 1953 was the earliest anti-localism instance since the founding of the PRC. The second wave of anti-localism movement, however, was not limited to Guangdong Province. It concurred with

the Anti-Rightist Struggle and swept other provinces in both old and new liberated areas. “The charge of localism or local nationalism” was raised in seven other provinces during the two years at the very beginning of the Great Leap (1957–58). These provinces include Zhejiang, Gansu, Guangxi, Liaoning, Shandong, Xinjiang and Yunnan [Teiwes \(1979, p. 358\)](#). Additionally, in the same time period, some of the provincial-level leaders in another four provinces (Anhui, Qinghai, Hebei, and Henan) were also purged under the ideological charges for being Rightists (*youpai*) and Right Opportunists (*youqing jihuizhuyi*).

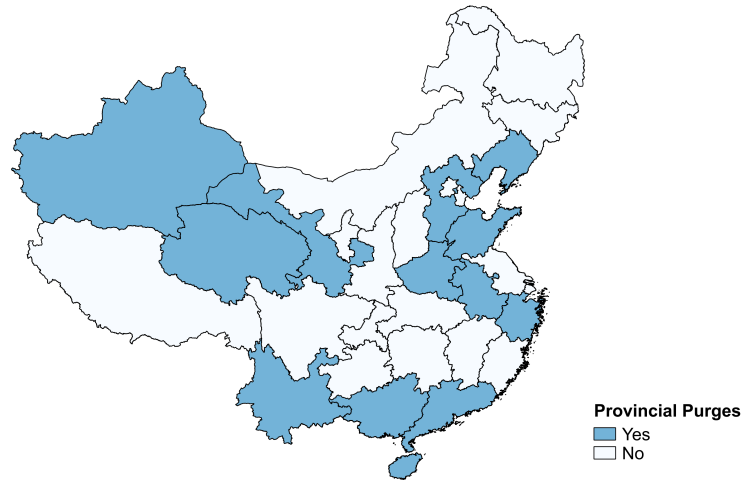
Provincial leaders purged in 1957 and 1958 include Sha Wenhan (Governor of Zhejiang Province), Sun Diancai (Vice Governor of Gansu Province), Chen Zaili (Vice Governor of Guangxi Province), Wang Zheng (Secretary of the CPC Secretariat of Liaoning Provincial Committee), Li Feng (First Secretary of the CPC Huimin Special District Committee in Shandong Province), Savlayev (Secretary of the CPC Committee of Xinjiang Uygur Autonomous Region), Zheng Dun (Director of the Organization Department of Yunnan Province), Li Shinong (Third Party Secretary of the CPC Anhui Provincial Committee), Sun Zuobin (Second Party Secretary of the CPC Qinghai Provincial Committee), Liu Hongtao (Director of the United Front Department in Hebei Province), and Pan Fusheng (First Party Secretary of the CPC Henan Provincial Committee).¹⁴ The provinces where the provincial-level leaders were purged in 1957 and 1958 are shown in [Figure 4.5](#).

Through removing the top provincial leaders who had shown a tendency to pursue policies inconsistent with the national directives, the political system achieved a very high level of policy consensus among the central and local leaders before the Second Session of the Eighth Party Congress (May 1958) when the Great Leap Forward officially began. It was against this backdrop that the whole country plunged into the Great Leap Forward.

It is important to note that the provincial purges did not stop in 1958. For instance, Zhou Xiaozhou (First Party Secretary of the CPC Hunan Provincial Committee) and Jiang Yizhen (Party Secretary of the CPC Fujian Provincial Committee) were purged in 1959 after the Lushan Conference. The centralized party structure of the CPC guarantees the possibility for the central government to regularly replace the relatively independent-minded

¹⁴For more provincial cadre members who were purged during Anti-Rightist Struggle and this wave of anti-localism movement, see [Teiwes \(1979, p. 350\)](#).

Figure 4.5. The Provincial Purges in 1957–1958



Source: [Teiwes \(1979, p. 350\)](#).

officials with the more like-minded ones. This organizational capacity is crucial for the central government to sustain a low level of policy preference divergence between the two levels of the government. In the case of China, by constantly engaging in such personnel changes, the national leadership—in particular Mao Zedong—was able to sustain the Great Leap Forward for three years despite its economically decentralized nature and the soon-discovered economically disastrous consequences for the localities.

To summarize this section, I find that in the early years of the PRC, the CPC faced ideological challenges, both due to the recruitment of a large number of new cadres and due to a high level of regional heterogeneity. As a highly ideological party at the time, the CPC devoted great efforts to combating ideological disunity in order to unite all cadres in the construction of Socialism and Communism. It was through this process that the relatively independent-minded local cadres, such as the native cadres in Guangdong Province, were purged and replaced by cadres who shared the central government’s policy preferences, especially the intensive enthusiasm for pursuing Socialism and Communism with a radical

approach. As a result, the policy preference divergence between the central and local governments was reduced to a significant extent at the early stage of the Great Leap Forward.¹⁵ A highly centralized political system proved to be a necessary condition in this process, because the centralized organization not only enabled effective personnel changes but also prevented the potential political instability that could have been resulted from such large-scale purges if political centralization had been low.

4.4.2.2 SNG: Strong Career Incentives Besides reducing the policy preference divergence between the central and local governments, the centralized political system also sustained the local officials' strong career incentives to implement the central government's economic policies.

As discussed in Section 4.4.1.3, the political system of the PRC was established as a Leninist-Marxist party-state, so that the CPC had party organs and held the unified leadership at all levels of government. Although the 1954 Constitution stipulated that the NPC and the local people's congresses at each government level elected the local officials, in practice, it was the CPC that determined the personnel for the local government offices. The organization of the Party determined the organization of the government.

In the meanwhile, the reward-punishment mechanisms were crucial components to the CPC's centralized structure, which were manifested in the Party's heavy emphasis on the Party discipline and the organizations that sustained the strong Party discipline. It was these strong reward-punishment mechanisms that created the robust career incentives of the local leaders to obey the central leadership.

Firstly, the CPC consistently valued the party discipline since its founding, and such an emphasis strengthened after 1927, when the survival of the CPC heavily depended on its discipline. For instance, the third amendment to the Party Constitution in 1927 incorporated the principles of "democratic centralism," which on the one hand allowed free discussions among the Party members before the Party made decisions while on the other hand required "quick and correct" implementation of Party resolutions once they were made. The punish-

¹⁵As hinted in early discussions, the series of ideological campaigns in the 1950s not only decreased the policy preference divergence at the intergovernmental level, i.e., between the central and local governments, but also at the central level among the central leadership and in the society among non-party members.

ments towards the Party organizations and Party members that did not follow the resolutions made by the higher levels included the following: (1) if a Party organization violates the Party discipline, “the Party organization would receive a warning, be reorganized, or there would be a complete re-registration (the dissolution of the Party organization).” (2) if an individual Party member violates the Party discipline, “the individual Party member would receive a warning. For the Party members who receive a public warning in the Party, they would be removed from their positions in the Party, the KMT, the nationalist government, and other organizations. The individual Party member would be placed on probation within the Party, or be expelled from the Party” (CPCCC Politburo, 1989, Chapter 9, Articles 65 and 66, p. 152).

The amendment of the Party Constitution in the Seventh National Congress (1945) further elaborated on the principles of the “democratic centralism,” which was defined as “a combination of centralism on the basis of democracy and democracy under centralized guidance.” It required that the individual Party members were subordinate to the Party organization, the lower Party organizations were subordinate to the higher Party organizations, and all the constituent organizations and members of the Party were subordinate to the Central Committee of the Party (CPC, 1991, Chapter 2, Article 14, pp. 122–123). Chapter 10 of the Party Constitution (1945) included six articles and specified the conditions for rewards and punishments. For instance, it stipulated that the Party members or the Party organizations would be rewarded, if in their work, they demonstrated that they were completely loyal to the Party and the people, became role models for adhering to the Party’s and the revolutionary government’s discipline, and were ingenious at realizing the Party’s guidelines, policies, and the CPCCC’s and higher levels’ resolutions. On the other hand, if they violated the Party discipline, they would receive punishments. For the Party organizations, the punishments included criticism (*zhi ze*); partially reorganizing the leading organization; abolishing the leading organization and appointing the provisional leading organization; and dissolving the whole organization and carrying out the re-registration of the Party members. For the individual Party members, the punishments included giving advice or warning in person; giving advice or warning in public; removal from office; probation within the Party; and expulsion from the Party (CPC, 1991, pp. 134–135).

The Party Constitution passed in the Eighth National Congress (1956), which was also the first Party Constitution after the establishment of the PRC, for the most part continued with the 1945 Party Constitution, reiterating the principles of “democratic centralism” and that the party members should implement the Party resolutions unconditionally. Articles 25 and 26 of the Party Constitution specifically dealt with the relationship between the Party center and the local Party organizations. They granted some degree of local autonomy, but also stated clearly that the lower level resolutions must not contradict the higher level resolutions, and if the lower level Party organization believed that the resolution made by the higher level was not suitable for the conditions of their localities or departments, the lower level organization should make a petition to the higher level to change the resolution; but if the higher level decided to execute the original resolution, the lower level must unconditionally execute it. With regard to policies concerning the whole country, before the central level publicized its opinions and made its resolutions, except organizing discussions and offering suggestions to the central leading organs, the lower levels were not allowed to freely express their opinions or make resolutions ([Eighth National Congress of the CPC, 1957](#), Chapter 2, pp. 829–831). Different from the previous Party Constitutions, The 1956 Party Constitution did not have one chapter specifically devoted to “Party Discipline;” instead, it included the contents of Party discipline in Chapter One on “Membership.” Article 2 of Chapter One stated that the Party members were considered to be violating the Party discipline if they “severely deviated from their responsibilities, disrupted the Party unity, violated the laws of the state, acted against the Party resolutions, and harmed the Party’s interests and deceived the Party” ([Eighth National Congress of the CPC, 1957](#), Chapter 1, Article 2, p. 826). Article 13 of Chapter One listed the punishments for Party members who violated the Party discipline. Based on the specific violations, the various levels of Party organizations could punish the Party members in the following ways: warning, serious warning, removal from Party posts, probation within the Party, and expulsion from the Party ([Eighth National Congress of the CPC, 1957](#), Chapter 1, Article 13, p. 828).

These three Party Constitutions (1927, 1945, and 1956) show clearly that the CPC heavily valued the unity and discipline of the Party, with a particular emphasis on the unconditional implementation of the Party guidelines and policies by the Party members and

the Party organizations at all levels. According to the Party Constitutions, disagreements could be voiced via the internal channels, but the decision-making authority rested at the higher levels and the ultimate authority was at the CPCCC Politburo. (However, in reality, many Party members who voiced their disagreements through the Party channels were still purged in the series of movements.) Individual Party members should implement the Party resolutions; and the Party organizations at the lower levels should implement the resolutions made by the Party organizations at the higher levels. If the Party members or organizations did not carry out the Party resolutions, they would be punished. The punishments of individual Party members ranged from receiving a warning to being removed from office and to the ultimate punishment, being expelled from the Party.

Secondly, besides formally emphasizing Party discipline in the Party Constitutions, the CPC also established a Party agency responsible for monitoring the behaviors of the Party members. The agency was initially established in 1927, which was called the Supervisory Commission (*jiancha weiyuanhui*; also translated as the Control Commission). It was set up at the central and provincial levels. During the war periods in the 1930s and 1940s, the disciplinary body adopted various names, including the Review Committees (*shencha weiyuanhui*) at the central, provincial, county, and municipal levels in 1928, the Central Party Affairs Committee (*zhongyang dangwu weiyuanhui*) at the central level and the Supervisory Commissions at the provincial and county levels in 1933, and the Supervisory Commissions at the central and local levels in 1945 (Gong, 2008, pp. 141–142; Wu, 2009, pp. 19–21). However, the disciplinary organs did not have substantial authority during the war periods. Instead, the work of discipline inspection was carried out by the Party Committees at the central and local levels (Wu, 2009, p. 21).

In 1949, as the CPC transitioned from an opposition party to the ruling party, it decided to establish the Commission of Discipline Inspection (CDI, *jilv jiancha weiyuanhui*) at the central and local levels, where there were Party Committees. The Central CDI had three main functions: (1) to inspect the Party discipline violation behaviors of the departments directly under the CPCCC, the Party organizations at all levels, Party cadres, and Party members; (2) to receive, review, and decide on the punishments or cancelation of the punishments for the Party discipline violation of the departments directly under the CPCCC,

the Party organizations at all levels, and Party members; and (3) to strengthen Party discipline education, so that the Party members and cadres would strictly adhere to the Party discipline, implement the Party resolutions and government decrees, and realize the unity and centralism of the whole Party (Wu, 2009, p. 21). But from 1949 to 1955, the CDI only played a minor role (Li, 2016, p. 452).

In 1955, triggered by the “anti-Party conspiracy” of Gao Gang and Rao Shushi, to further strengthen the Party discipline, the National Congress of the CPC decided to replace the CDI with the central and local Supervisory Commissions, upgraded the organ’s rank within the Party, and expanded its functions. Now, the Central Supervisory Commission had four main tasks: (1) to regularly inspect and handle the cases, where the Party organizations and Party members that belonged to the CPCCC departments and the departments of the central government violated the Party Constitution, Party discipline, state laws, and state decrees; (2) to regularly inspect and handle the cases, where the local Party organizations and, if necessary, the members of the local Party organizations, violated the Party Constitution, Party discipline, state laws, and state decrees; (3) to lead the work of the local Supervisory Commissions; and (4) to hear the cases, where the Party members and the masses reported on and accused the Party organizations and Party members, and where the Party members refused to accept the punishments and made an appeal (Wu, 2009, p. 21). “From 1956 to the Cultural Revolution, the [Supervisory Commissions] functioned as an enforcement agency for the party’s successive political campaigns” (Li, 2016, p. 452).

Finally, in addition to the formal emphases on the Party discipline and formal institution, such as the Supervisory Commissions, the Party also utilized rectification movements and purges to punish the behaviors of disloyalty to the Party. As discussed in Section 4.4.2.1, the movements and purges that happened in the 1950s not only reduced the policy preference divergence between the central and local officials by removing those independent-minded officials with the more like-minded ones, but also created strong incentives for the remaining officials to implement the policies made by the higher levels.

For instance, during Guangdong’s second wave anti-localism movement mentioned earlier, when the Deputy Party Secretary of the Provincial Party Committee, Gu Dacun, and the Deputy Provincial Governor, Feng Baiju, were denounced, all the levels within Guang-

dong Province were mobilized to expose and criticize them. People were asked to review their previous dialogues with Gu Dacun—even the trivial chats had to be examined again—and make a clean break with him (Chen, 2001, p. 29). Through involving all officials in the purging processes, the local officials could personally observe the severe consequences of being considered as deviating from the higher levels’ policy agenda.

In summary, I show that the second consequence of having a centralized political system was that the local officials had strong career incentives to implement the central government’s policies. In particular, the CPC’s total control over the state implies that the Party’s organization determined the state’s government organization. This section identifies three aspects of the CPC that fostered the local officials’ strong career incentives to implement the central policy agenda, including the CPC’s heavy emphasis on Party discipline since the late 1920s, the formal setup of the disciplinary organs, and finally the less formal mechanism of periodic rectification movements and purges.

This section shows that the centralized political system in postrevolutionary China led to both similar policy preferences between the central and local government officials and strong career incentives for local officials to implement the central policy agenda. These two conditions together contributed to high deviation thresholds for the local officials, which imply that the local officials were unlikely to deviate from the central government’s policy agenda.

4.4.3 SNG: Policy Implementation

This section presents supportive evidence for the third link of the causal mechanism in Figure 4.1: the local officials faithfully implemented the central government’s economic policies. In particular, I show examples of how the local governments in Guangdong at various levels, including the provincial, county, and village levels, implemented the agricultural policies from 1949 to 1956, including land reform movement and socialist transformation of agriculture.

4.4.3.1 Land Reform (1949–1953) With regard to the land reform movement, the regions in China had different initial conditions. As mentioned in Section 4.4.1.3, even before

the establishment of the PRC, land reform was mostly accomplished in the old liberated areas, such as the Northeast and North China. The new government's main focus was to implement land reform in the new liberated areas.

This section (4.4.3.1) specifically discusses the land reform movement at the provincial level in Guangdong, at the county level (with the example of Mei Xian), and at the village level (with the example of Qiaoxiang Village in Mei Xian). The evidence at all the three local levels supports the causal link that the local officials carried out the land reform policies. It is also clear that the anti-localism movement (discussed in Section 4.4.2.1) had a strong impact on the implementation of the land reform policies.

At the central level, land reform was an essential revolutionary goal and critical for consolidating the new regime, as accomplishing land reform could strengthen the peasants' support—a majority of Chinese population at the time—for the new regime as well as destroying the revolutionary regime's enemies, namely the landlords and other traditional elites. Thus, land reform occupied a high priority for the new government.

The Common Program of 1949 stated that the PRC “must systematically transform the feudal and semi-feudal land ownership system into a system of peasant land ownership” (CPPCC, 1950, Article 3, p. 3). In January 1950, the CPCCC issued a directive to start the preparatory work for land reform in the new liberated areas. The Party leadership set the general line and general policy of land reform in the new liberated areas, which was “to depend on poor peasants and hired laborers, unite middle peasants, neutralize rich peasants, abolish feudal land ownership step-by-step and discriminatorily, and develop agricultural production.” The basic tasks of land reform in the new liberated areas included confiscating the landlords' land and redistributing it to the peasants who had none or very little land, and also distributing an equal share of land to the previous landlords to transform them into “new men” through physical labor. In June 1950, the Central People's Government Committee passed the Land Reform Law of the PRC, which became the legal basis of land reform.

As one of the provinces in the new liberated areas, the case of Guangdong demonstrates how the local leaders implemented the land reform policies. Guangdong Province did not have a strong CPC presence prior to 1949. To the contrary, it had been a strong base for

KMT's nationalist government and one of the last provinces being liberated by the CPC. The fact that the land reform goals were accomplished in Guangdong shows the significant impact of the high political centralization level in China at the historical moment on the economic policy implementation.

To clarify, by faithful implementation of the land reform policies, I do not assume that the central government's policy agenda was completely consistent without policy changes, nor do I assume the implementation process was completely smooth. As the previous discussion on the anti-localism movement shows, there were quite some policy preference differences among cadres at the local levels (for instance, between the CSCB and the South China Branch and between the native and non-native cadres). Besides, as the following discussion shows, the speed of land reform also changed within the four-year period (1949–1953).

However, these inconsistencies did not contradict my argument that at any point during the four years, none of the local officials went against the central government's directives. They all implemented the land reform. Their disagreements were limited to how to implement the land reform, such as gradually or rapidly, peacefully or violently. And once the central government issued a directive, the local officials could only follow the central order. The land reform process, in particular, illustrates this strong adherence.

The provincial leaders who led the land reform from 1949 to 1951 (prior to the anti-localism movement) were often native cadres, who had local connections and local knowledge, and pursued the land reform policies in a gradual manner, as discussed in Section 4.4.2.1. Under their leadership, Guangdong's provincial government passed three decrees with regard to how to carry out the land reform movement. The basic principles included the following: (1) the fundamental goals of land reform were to abolish the feudal land ownership, abolish the feudal exploitation of peasants, and liberate the agricultural productivity; (2) the land reform must pay attention to uniting all the people, organize a strong and broad rural united front, give preferential treatment to those who need preferential treatment, stabilize the mood of people from various social classes, in order to promote the provincial and national development; and (3) the land reform must be compatible with the development of productivity (Huang, 1995, p. 38).

Shortly after Guangdong's liberation, the South China Branch and Guangdong Provincial

People's Government carried out the movement of "weeding out bandits and countering despotic landlords, reducing rents and interests" (*jiao fei fan ba, jian zu jian xi*).¹⁶ In June 1950, Guangdong Province organized the first Provincial Peasants' Congress and established the CPC-led Peasants' Association. By October 1950, the Peasants' Association had more than two million members (Huang, 1995, p. 40). From October 1950 to February 1951, the provincial government carried out the land reform gradually, by first piloting the movement in three counties in October 1950, and then expanding the movement to include another eight counties in November 1950 and two more counties in January 1951 (Huang, 1995, p. 40).

As discussed in Section 4.4.2.1, such a gradual process was criticized by the CSCB led by Lin Biao (First Secretary) and Deng Zihui (Second Secretary). The CSCB thus sent Tao Zhu in December 1951 to replace Fang Fang to lead the land reform in Guangdong and implemented the first wave anti-localism movement which eventually resulted in the purging of 6,515 cadres.

In April 1952, under Tao Zhu's leadership, the South China Bureau decided to devote more resources to land reform and give land reform the top priority. The South China Bureau would resolutely follow the guiding principle set by the CSCB: "relying on the army, relying on the cadres from the north." The land reform under Tao Zhu's leadership put more emphasis on mass mobilization. Specifically, the movement aimed to (1) effectively satisfy poor peasants' needs; (2) focus on fighting the big landlords and local tyrants and completely destroy the rule of landlord class; and (3) carefully cultivate the village leadership (Huang, 1995, p. 41).

Before the anti-localism movement and Tao Zhu took over the provincial leadership, the land reform was more gradual. For instance, in the year of 1951, the land reform was carried out in areas that had a total population of 4.7 million. After the end of 1951, the land reform was accelerated. By the summer harvest of 1952, the areas that carried out land reform had a total population of more than 10 million. Before the fall harvest of 1952, areas of another 10 million population completed land reform (Huang, 1995, p. 41).

¹⁶The movement later became "weeding out bandits and countering despotic landlords, reducing rents and returning deposits" (*qing fei fan ba, jian zu tui ya*) (Huang, 1995, p. 40).

The provincial-level dynamics shows that both the native provincial leader, Fang Fang, and the non-native provincial leader, Tao Zhu, implemented the land reform policies. They differed on their approaches. The native leader Fang Fang preferred a gradual and peaceful approach, while the non-native leader Tao Zhu followed a more radical and violent approach. The central government and the higher subnational level (the CSCB) had the power to decide on how to implement the land reform. If the local officials could not satisfy the higher level's requirements, the local officials would leave office, guaranteed by the centralized political system. The new personnel, which was Tao Zhu in this case, would follow the orders issued from the higher levels. If hypothetically he had not followed such orders, he would have been replaced. Thus, the system provided strong incentives for the local officials to follow the central directives and the land reform process confirms this mechanism.

This mechanism was effective not only at the provincial level, but due to the CPC's pervasiveness in the society, it was also effective at the lower levels, such as the county and village levels. The following examples of Mei Xian and Qiaoxiang Village show how land reform was carried out at the county and village levels.

Prior to 1949, the land ownership in Mei Xian was private. According to a study done by the County Land Reform Committee (*Tudi Gaige Weiyuanhui*, LRC) in 1953, the county had 101,911 households and a population of 389,136. The total area of arable land was 395,021 mu (around 26,335 hectares). To implement the land reform, the LRC carried out an identification of the class structure and differentiated the following classes: landlord (*di zhu*), rich peasants (*fu nong*), industrialists and commercialists (*gong shang ye jia*), previous bureaucrats (*jiu guan li*), lessors and managers of small plots (*xiao tudi chuzu*, *xiao tudi jingying zhe*), middle peasants (*zhong nong*), poor peasants (*pin nong*), farm laborers (*gu nong*), and workers (*gong ren*), among others. The average land owned by a landowner was 1.77 mu (around 1,180 m²), while the average land owned by a poor peasant or a hired laborer was 0.33 mu (around 220 m²) ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), pp. 239–240).

Mei Xian was peacefully liberated and the County People's Democratic Government was established in May 1949. But in July 1949, the KMT army led by Division Commander (*shi zhang*) Hu Lian took back the urban area of Mei Xian, forcing the newly established

people's democratic government to retreat to the mountainous region. In August 1949, the PLA defeated Hu Lian's army. In September 1949, the People's Government of Mei Xian moved back to the urban area ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), pp. 45–46).

Beginning in October 1949, the Mei Xian county government initiated the program of rent and interest reduction. This policy allowed the private land ownership to continue to exist, but reduced the rents and interests that the peasants owed to the landlords. This program, called “‘25%’ Rent Reduction” (“*‘er wu’ jian zu*”), resulted in peasants receiving a return of three-million grain rent ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), p. 240).

In May 1951, the Mei Xian County LRC was established, which organized more than 1,000 cadres (including the working personnel dispatched from the provincial level) into land reform work teams, and dispatched these cadres to the villages to carry out the land reform movement. After Tao Zhu became the provincial leader, in early 1952, a group of cadres sent from the north and cadres who were veterans also joined the land reform movement ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), p. 240).

Mei Xian's land reform had three stages. The first stage lasted from May to July 1951, during which the county government carried out a movement of “weeding out bandits and countering despotic landlords, returning rents and deposits” (*qing fei fan ba, tui zu tui ya*), called “eight-character movement” (*ba zi yundong*). In this stage, in the county's 639 villages, 3,303 Poor Peasants' and Farm Laborers' Groups were formed and had a total membership of 48,900. The total membership of Peasants' Associations reached 149,000. The number of despotic landlords and counterrevolutionaries identified was 1,549, among whom six were sentenced to death and 103 received fixed-term imprisonment. The total number of landlords and people from similar classes being scrutinized (*qingsuan*) was 9,665, 2,968 of whom returned the rents to the peasants. More than 259,000 people joined the movement, and more than 224,000 of them received benefits from the movement ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), p. 240).

The second stage was from September 1951 to November 1952, the county government mobilized and organized the masses to differentiate classes (*huafen jieji*), redistribute land,

and consolidate the new regime. In the earlier period of this stage, the County Party Committee chose four districts to launch a pilot movement and dispatched all of the county's land reform teams to these four districts. In August 1952, the movement spread to all parts of the county ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), p. 240). The anti-localism movement in Mei Xian (summarized earlier in Tables 4.1 and 4.2 and Figure 4.4) also ensured the acceleration of land reform process. By November 1952, all 15 districts (150 townships) in Mei Xian had completed most of the second-stage tasks of class differentiation and land confiscation and redistribution ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), p. 240).

The third stage happened in Spring 1953. During this period, the county government organized a verification process of the land reform (*tugai fucha*). The verification process ended by the end of March 1953. In April 1953, the county government conducted the land survey and fixed production quota, collected the old land leases, and issued certificate of property ownership ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), pp. 240–241).

Mei Xian's land reform movement lasted for almost two years. During the two years, the county suppressed 2,016 landlords, sentenced 80 despotic landlords and counterrevolutionaries to death and 117 fixed-term imprisonment. In Mei Xian, 2,926 households were classified as the landlord class and 1,462 households as the rich peasant class. 65,500 households (64.3% of all rural households in the county) and 237,100 people (60.9% of the county's rural population) received land, houses, farm cattle, farm tools, and other benefits. The members of the landlord family also received a share of land, corresponding to their family sizes ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), p. 241).

An example of Qiaoxiang Village (*qiaoxiang cun*) in Mei Xian County shows the policy implementation at the village level. Qiaoxiang Village is an administrative village named after its strong emigration culture. Qiaoxiang Village includes three natural sub-villages (*ziran cun*), namely Siqian, Gaotian, and Tangdu. Before the land reform, Siqian and Gaotian sub-villages belonged to one natural sub-village, called Siqianpai. During the land reform in 1953, for administrative purposes, Siqianpai (sub-village) was divided into two

sub-villages (Pan, 2015, p. 21).

Like many other villages in the new liberated area, Qiaoxiang Village did not have a strong CPC presence before 1949. The first Party Branch in Qiaoxiang Village was established in March 1952, when the land reform work team was sent to the village from the county government of Mei Xian. In February 1953, five villagers from Qiaoxiang Village became the first CPC members in the village history. One of the first Party member, He Yaxi, became Party Branch Secretary of Nanhu Township, which administered Qiaoxiang Village (Pan, 2015, p. 138). Although anti-localism movement put non-native cadres into leadership positions at the county level, in Nanhu Township and Qiaoxiang village, it was the local people that governed.

In 1953, Qiaoxiang Village carried out the land reform movement. The land of landlords and rich peasants were confiscated. Farm cattles, farm tools, extra grain and houses, were first taken over by the Township Peasants' Association, and later distributed to the villagers according to their family sizes. The landlords and rich peasants also received shares of the land in this equalizing manner. Villagers received the land certificate. The ancestral temples and private schools all became public property. According to the Land Reform Law and Decisions on Differentiating the Classes in the Rural Areas, the village carried out the verification process (Pan, 2015, p. 124).

Qiaoxiang Village's experience demonstrates the effectiveness of the CPC organization. Although the township and villages were led by the native cadres, some of whom only joined the CPC in the early 1950s, the CPC organization still ensured the implementation of the land reform policies in a village that did not have a strong CPC presence prior to 1949.

The land reform process in Guangdong is illustrative of how the centralized political system ensured the implementation of the economic policies at the local levels. First, the case shows that the high deviation thresholds created by the centralized political system indeed had its expected effects—the anti-localism movement indeed accelerated the land reform process. Second, the case shows that because the CPC permeated all government levels, the centralized system ensured that the land reform movement was carried out at the most local levels.

4.4.3.2 Socialist Transformation of Agriculture (1953–1956) In this section, I present the evidence of how the socialist transformation of agriculture was carried out at the local levels, using Mei Xian (County) and Qiaoxiang Village as the examples. During this period, Tao Zhu continued to lead at the provincial level. The political conditions were stable, since there were no salient political movements in this time period.¹⁷ This section shows that the socialist transformation of agriculture moved forward smoothly at the local levels.

In 1952, the CPCCC put forth the “general line for the transition period.” According to Chairman Mao (1977), the Party’s general task was “to gradually accomplish the country’s industrialization along with the socialist transformation of agriculture, handicrafts and capitalist industry and commerce over a relatively long period of time. This general line should be the beacon illuminating all our work, and wherever we deviate from it, we shall make Right or ‘Left’ mistakes” (p. 102).

Guided by the general line for the transition period, Mei Xian pursued the socialist transformation of agriculture in the following stages.

In the first stage, beginning in Spring 1952, peasants were organized into seasonal mutual aid teams (*linshi huzhuzu*) and year-round mutual aid teams (*changnian huzhuzu*). At first, peasants joined the seasonal mutual aid teams and often voluntarily helped each other during the busy seasons in various ways, such as exchanging labor for labor, and exchanging labor for cattle work, etc. There were more than 3,000 seasonal mutual aid teams in 1952. 34 of these seasonal mutual aid teams were organized into year-round mutual aid teams. The year-round mutual aid teams were more organized and centralized. They had production plans, evaluated peasants’ work and recorded points. Beginning in December 1952, the County Party Committee strengthened its leadership over the “mutual aid and cooperation movement.” It held training courses for the leaders of the mutual aid teams and formed a Department of Cooperation to lead the mutual aid and cooperation movement. By the end of 1953, more than 11,400 mutual aid teams were formed. 75,600 households (70.3% of total rural households) joined the mutual aid teams. Among them, 1,647 were year-round mutual

¹⁷The rectification campaign, the anti-rightist struggle, and the second wave anti-localism movement all happened after 1956.

aid teams. 12.2% of total households joined these year-round mutual aid teams ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), p. 241).

The second stage began in the winter of 1953. In this stage, the mutual aid teams were transformed into the semi-socialist primary agricultural producers' cooperatives (*chujī nongye shengchan hezuoshe*). The peasants handed over land and capital to the agricultural cooperatives and “were remunerated for their land shares and labor contributed to production” ([Crook, 1972](#), p. 1). The basic production unit in the agricultural cooperatives was the operation team. The team leaders were in charge of assigning production tasks, setting work quotas and work-point standards, evaluating peasants' labor, and recording their work points ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), p. 244).

The County Party Committee of the CPC first chose three year-round mutual aid teams to form three primary agricultural cooperatives in 1953. In the spring and summer of 1954, another ten townships were selected to create ten more primary agricultural cooperatives from the year-round mutual aid teams. By the spring of 1955, 146 primary agricultural cooperatives were established in 109 small townships (68.55% of all small townships). The number of households that joined the agricultural cooperatives reached 5,486 (5.03% of total rural households). In the fall of 1955, to implement Mao's directive on agricultural collectivization, Mei Xian started a new upsurge of forming agricultural cooperatives, resulting in the establishment of 1,562 new primary cooperatives and a total number of 1,708 primary cooperatives. The number of rural households that joined the cooperatives expanded to 44,300, reaching 40.4% of total rural households ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), p. 241).

The third stage lasted one year, from the winter of 1955 to the winter of 1956, when Mei Xian transformed the primary agricultural producers' cooperatives into advanced agricultural producers' cooperatives (*gaoji nongye shengchan hezuoshe*) and mostly accomplished the socialist transformation of agriculture ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), pp. 241–242).

The advanced agricultural cooperatives was considered fully socialist, as they had collective ownership and performed distribution according to labor. From the winter of 1955 to

the spring of 1956, Mei Xian first chose two townships, in which the primary cooperatives were merged and expanded to form the advanced agricultural producers' cooperatives. From the summer of 1956, Mei Xian merged and upgraded the cooperatives on a large scale. By December 1956, 587 advanced agricultural producers' cooperatives were formed. A total number of 108,597 rural households that constituted 98.7% of total rural households joined the advanced cooperatives. The sizes of the advanced agricultural cooperatives ranged from the smallest that had 100 households to the largest that had 600 to 800 households ([Guangdong Provincial Local Gazetteer Editing and Compiling Committee, 1995](#), pp. 241–242).

At the village level, Qiaoxiang Village began the agricultural cooperative movement in 1955. In the fall of 1955, 16 households in Tangdu (one natural sub-village) organized a mutual aid team. Because all households were relatives of overseas Chinese, the mutual aid team was called Qiaoxiang Mutual Aid Team. Later, 32 relatives of overseas Chinese were organized into a primary agricultural producers' cooperative, which continued to use the name of the mutual aid team and was called Tangdu Village Qiaoxiang Primary Agricultural Producers' Cooperative. Around 1956 and 1957, the primary agricultural cooperatives in the three natural sub-villages were merged into one advanced cooperative. As 90% of the members were relatives of overseas Chinese, the cooperative was called Qiaoxiang Advanced Cooperative. Throughout the transformation, the CPC local branch in Qiaoxiang Village organized a propaganda team and a *yangge* team (a type of popular folk dance) to advocate the agricultural collectivization policies ([Pan, 2015](#), p. 22; pp. 140–141).

In summary, this section provides strong evidence for the third link of the causal mechanism that the local governments indeed implemented the economic policies made by the central government in the early 1950s. Moreover, the evidence also strongly supports that the centralized political system played a crucial role, as the case of Guangdong demonstrates how the anti-localism movement accelerated the land reform process. Besides, the central government's control permeated to the village level, as the evidence drawn from Mei Xian (county) and Qiaoxiang Village shows. These pieces of evidence are particularly illuminating, given that the CPC had a rather weak presence in Qiaoxiang Village, Mei Xian, and Guangdong Province. The influence of the central leadership is expected to be stronger in areas where the CPC had a stronger presence prior to 1949, such as the old liberated areas.

4.4.4 NG: Strong Trust and Desire of Economic Decentralization

This section presents the evidence for the fourth link of the causal mechanism in Figure 4.3: the central government trusted that the local officials would implement the central government's policy agenda after economic decentralization. Given that the central government also considered centralized economic system was obstructing rapid development, the central government desired a higher economic decentralization level.

4.4.4.1 The Central Government (Mao) Trusted the Local Officials The fast completion of the socialist transformation of agriculture, handicrafts and capitalist industry and commerce from 1953 to 1956 showed the impacts of the centralized political system on policy implementation at the local levels. As a result, the central leaders, including Mao Zedong, became more confident in leading the local officials from Beijing, knowing that they had the political tools offered by the Party organization to discipline the local leaders.

Firstly, the central government had the political tools to control the local officials. In addition to continuing the emphasis on Party discipline through formal institutions (discussed in Section 4.4.2.2), the central officials also resumed the less formal mechanisms, such as carrying out political movements within the Party to replace the local officials who doubted the central policy agenda with the more allegiant cadres, both before and after economic authority was decentralized.

For instance, although Fujian Province, a southern province neighboring Guangdong, did not fully engage in the anti-localism campaign in 1957, in October 1959 after the Lushan Conference, the Standing Member of the Provincial Party Committee, Jiang Yizhen, was purged under the charge of leading a “Rightist Opportunism Anti-Party Group” (*youqing jihui zhuyi fandang jituan*) (CPCCC Organization Department, CPCCC Party History Research Centre and CPCCC Archives, 2000e, p. 521). A similar case happened in Henan Province, where during the Great Leap Forward, the First Secretary of Henan Provincial Party Committee Pan Fusheng was purged in August 1958, because he was not as radical as the other top provincial leader, the Second Secretary Wu Zhipu (Zhao, 2011). The CPC appointed Wu Zhipu to replace Pan Fusheng as the First Secretary (CPCCC Organization

Department, CPCCC Party History Research Centre and CPCCC Archives, 2000e, p. 559).

Mao's confidence in the center's capacity to control the local officials politically fostered his trust in the local officials to pursue the policy agenda set by the central government.

Secondly, in fact, Mao's decision to pursue the radical policy goals of the Great Leap Forward was based on the local officials' persuasion. Thus, Mao had few reasons to doubt the local officials' intention to implement the national policy goals.

The previous personnel arrangement ensured the survival of the radical type of provincial leaders, who shared Mao's radical approach to pursue social and economic transformation. The consequence was that Mao trusted such radical provincial leaders for policy proposals. Moreover, because such radical provincial leaders shared Mao's preferences, Mao was also able to use them to counterbalance other central government leaders who held moderate views. This high level of consensus between Mao and the provincial leaders made Mao trust the latter's willingness to implement the radical policies of the Great Leap.

In late 1956, the local officials played an important role in Mao's change of attitudes from consenting to the "opposing rash advance" to criticizing it. During the Third Plenum, Mao discussed with the provincial and prefectural leaders and he commented that discussing with local leaders could be crucial for combating rightism. Moreover, "the raising of the *duo, kuai, hao, sheng* [more, faster, better, and more economical] slogan by local leaders made the Chairman 'very excited' (*hen xingfen*) at the plenum" (Teiwes and Sun, 1999, pp. 68–69).

In fact, the provincial officials had consistently been enthusiastic about more rapid growth. In late 1955, the subnational governments significantly increased their growth targets, because doing so offered the subnational governments an opportunity to expand spending in their local areas. Moreover, in early 1956, they directly participated in drafting the ambitious "40 Article 12-year Draft Program for Agricultural Development" (hereinafter referred to as "40 Article") when they complained about overcentralization and inadequate central government funding (Teiwes and Sun, 1999, pp. 22–23). It was the economic planners at the central government, such as Zhou Enlai and Chen Yun, who supported the "opposing rash advance," whereas the localities opposed it. For instance, after the *People's Daily* published an editorial that was critical of the blind rash advance in June 1956, the First Secretary of Shanghai Municipal Party Committee, Ke Qingshi, expressed his objections.

Teiwes and Sun (1999) found that there was no evidence suggesting the objections of the provincial leaders were encouraged by Mao (p. 32). Instead, because Mao did not articulate his support for the “opposing rash advance” program, the subnational governments had certain leeway and their discontent was their spontaneous response. The spontaneity of the provincial leaders’ strong distaste for “opposing rash advance” reflects their intense desire for rapid development, which is highly consistent with Mao’s policy preferences. Such a consistency was resulted from the high level of political centralization and led Mao to trust the provincial leaders so much that he authorized significant economic decentralization along with the Great Leap.

From Mao’s perspective, because it was the subnational governments’ strong advocacy of increasing targets beyond what was allowed objectively that contributed to his decision to stop the “opposing rash advance” program, he had few reasons to doubt that the provincial officials would adopt policies inconsistent with the radical national policy agenda. The purging of several top provincial officials in 1957–58 (see Figure 4.5) further replaced the more independent-minded provincial officials, whereby Mao was able to trust the provincial officials even more for implementing the Great Leap policies.

In sum, the highly centralized political system and the radical tendency of Mao combined led to the selection of the radical type of local officials prior to the Great Leap Forward. Moreover, the centralized political system continued during the Great Leap, reflected in the sustained political movements. Under these conditions, Mao trusted that the local officials would implement the centrally-made economic policies, since they were the ones who proposed to set radical policy targets. In case that other officials may question or disobey the central policy agenda, Mao could continue to remove such local officials from office.

However, I do not claim that the centralized political system made all provincial governments totally homogeneous in their desire to follow the central government’s policy agenda. Indeed, scholars do find significant variations in provincial leaders’ enthusiasm towards the Great Leap and in its impacts on localities.¹⁸ I argue that the high level of political central-

¹⁸For more on the causes and effects of provincial variation during the Great Leap Forward, see Yang (1996) and Kung and Chen (2011).

ization ensured the high deviation thresholds and Mao's trust in local officials to an extent so significant that Mao was willing to decentralize the economic authority.

4.4.4.2 The Central Government's Economic Incentives for Economic Decentralization So far, I have shown that during the Great Leap Forward, the deviation thresholds were high enough for Mao to trust the local officials' willingness to obey the central government's economic policy agenda. In the following, I briefly show the other two conditions identified in the game theoretical model: (1) the national government in this period valued economic development; and (2) China's socioeconomic conditions required a high economic decentralization level.

a. The Desire for Rapid Economic Development

There is little doubt that the national government in this period valued economic development. For over 100 years before the establishment of the PRC, China had endured frequent wars and constant political instability. The establishment of the PRC for the first time promised a peaceful environment where the nation could recover from the previous violent history. In this sense, it was not a coincidence that the whole nation was enthusiastic about achieving higher economic targets in the mid-1950s. In this context, Mao proposed the Great Leap Forward as a program to take advantage of the popular enthusiasm to construct a socialist economy.

According to the game theoretical model, the desire of the national government to develop the economy forms one additional condition for the top-down economic decentralization. In the case of the Great Leap, such a strong desire for economic development can be reflected in the goals set by the national leadership. For instance, as Mao visited the Soviet Union in 1957, he was inspired by the Soviet sputnik and ICBM and the Soviet Union's growth rate. "When Khrushchev declared that the Soviet Union would overtake the United States economically in 15 years, Mao . . . set his own goal for China to surpass Britain in the same period" (Teiwes and Sun, 1999, p. 70). As Teiwes and Sun (1999) discuss the causes of the Great Leap, they observe the following.

Undoubtedly the Chairman's oft-expressed desire, even when endorsing opposition to rash advance in 1956, for rapid growth was a fundamental consideration, one which perhaps became more salient by fall 1957 as the likelihood of continued slower growth sunk in. At

this juncture Mao seemingly was at once impatient with slow growth, encouraged by the completion of FFYP targets ahead of schedule, and angry that, in his view, *fanmaojin* had prevented greater economic achievements (p. 77).

This strong desire for rapid growth led to the later dramatic increase in the targets of steel production, from producing 10 million tons for 1962—which was set by Mao in August 1956—to 50 million tons—set again by Mao in 1958 (Teiwes and Sun, 1999, pp. 102–103).¹⁹ It is thus clear that the national government during this period valued economic development.

b. The Need for More Economic Decentralization

In the meantime, to achieve a faster economic development, the socioeconomic conditions in the mid-1950s demanded a more decentralized economic system than the one that China imported from the Soviet Union. Subjectively, the central leadership also realized the inadequacy of the centralized economic system.

In the early 1950s, the new PRC government successfully eliminated the private sector, which dramatically “increased the number of enterprises under the direct jurisdiction of the central planning apparatus.” Moreover, by eliminating the role of the market in the distribution of goods and services, the government now had to take on more responsibilities in such economic activities. As the economy developed and became more complex in the 1950s, the limitations with the centralized economic system became more salient. By April 1956, the excessive centralization revealed many problems of coordination, control and motivation. These problems included that (1) central decisions were based on inadequate information; (2) local governments could not coordinate activities in their own jurisdictions; and (3) local governments did not have many incentives to engage in local development efforts (Riskin, 1987, p. 102).²⁰

Such objective limitations, especially the suppression of provincial governments’ initiatives, were expressed by provincial officials to the national government, including to Mao himself. In December 1955 and January 1956, Mao conducted investigations and held meetings with provincial leaders, during which local officials, including Zeng Xisheng from Anhui

¹⁹Once more, Teiwes and Sun (1999, pp. 83–118) provide an excellent detailed account of the historical progression of how the optimism evolved and illustrate how the radical provincial government officials facilitated such a progression.

²⁰Riskin (1987) provides a more detailed discussion on the benefits and costs of the centralized economic system during this period (pp. 100–103).

and Tao Zhu from Guangdong, complained that “central control was choking productive activity, binding them hand and foot and leaving the localities no room for economic management, and they demanded a devolution of economic power” (Teiwes and Sun, 1999, p. 58). Mao appreciated provincial leaders’ enthusiasm and spoke on several occasions on the need to pursue economic decentralization.

When, as part of the briefing process leading to the “Ten Great Relationships,” the Chairman listened to the report of the Ministry of Heavy Industry on February 4, he noted that local cadres were very dissatisfied, and accused the assembled officials of ignoring requests from below and binding the localities. In early March he sent a note to top leaders Liu Shaoqi, Zhou Enlai, Peng Zhen, and Deng Xiaoping observing that while the Party Center had been listening to the ideas of ministries concerning changes in the economic management system, from then on it was necessary to listen to the views of provincial, municipal, and other local Party Committees (Teiwes and Sun, 1999, p. 58).

Therefore, the central government also had strong economic incentives to pursue economic decentralization policies, because the central government desired rapid economic development while the centralized economic system proved to be limiting economic development.

In summary, this section shows that the central government, especially its core leader Mao Zedong, trusted that the local officials were loyal Party members who had high deviation thresholds and would pursue the economic policies made by the central government. In addition, the central leaders also had the toolbox offered by the Party organization to rectify the local leaders, if some of the local officials doubted the Party line. In addition to the political incentive based on trust, the central government also had economic incentives to pursue economic decentralization, including its desire of a rapid economic development and perception of the limitations of an economically centralized system for a country as large and diverse as China.

4.4.5 Economic Decentralization Policies and Provincial Responses

This section presents the evidence for the final link in Figure 4.1: the central government pursued the economic decentralization policies and the provincial leaders implemented the central government’s economic policy agenda despite the economic decentralization policies.

4.4.5.1 Economic Decentralization Policies Along with the dramatic increase of economic targets, the Great Leap also witnessed a radical shift of economic authority and resources from the national to the provincial governments, both in the area of the administration of the state-owned enterprises and in terms of fiscal autonomy.

In the area of administration of state-owned enterprises, according to the directives announced by the State Council on 18 November 1957, the control over a vast majority of light industrial enterprises (with the exception of textiles) were transferred from the national to provincial governments, “along with heavy industrial enterprises other than large-scale units in strategically important sectors” (Riskin, 1987, p. 104). Moreover, to all enterprises still under central control, the principle of “dual leadership” by both national and provincial authorities were applied.

In terms of economic resources, previously “under the consolidated state budget system, local expenditures were determined by the centre and bore no relation to local revenues” (Riskin, 1987, p. 102). According to the directives in late 1957 and 1958,

the profits of the newly decentralized enterprises were to be split between centre and province with the former retaining 80 per cent. The same 80–20 division was applied for the profits of enterprises (e.g., textiles) still under central control, except for those in certain large-scale and/or strategically important heavy industries. The result of these provisions, was, at least on paper, a substantial increase in the share of total industrial profits going to localities. Provincial governments were also given greater authority over distribution of output of provincial factories producing goods subject to unified distribution; and over the allocation of personnel in centrally operated enterprises (Riskin, 1987, pp. 104–105).

Decentralization also occurred in the fiscal area:

Provincial tax authority was expanded by setting forth a number of cases in which provinces could adjust tax rates and change the coverage of certain taxes. Decentralization of financial management expanded the scope of revenues and expenditures of local governments and in addition gave provincial governments more control over the composition of their expenditures. Extrabudgetary revenues of local governments also were expanded and local governments were given increased authority over the use of budgetary surpluses (Lardy, 1978, p. 33).

On the other hand, according to both Riskin (1987) and Lardy (1978), although the economic decentralization process was very significant, the central government maintained strong power “over the interregional allocation of resources, the level and nature of capital investment, the production quantities of the most important industrial and agricultural

goods, the total expenditures (and even their composition) of provinces, and the total wage bill” (Riskin, 1987, pp. 106–107).

[F]or example, before the reforms each province’s annual revenues were provided by the central government in the amount required by the centrally approved expenditure plan for the year in question. After the reforms the provinces had in their expanded tax base and profit-sharing powers a broad, independent, and expanding source of revenues. However, the size of their revenue base was carefully calculated to cover only about three-quarters of their expenditures, so that they continued to depend upon annually adjusted central subsidies, which could be used to control the growth and composition of provincial expenditures (Riskin, 1987, p. 107).

There are two points worth noting. Firstly, the economic decentralization process as a component of the Great Leap agenda began in November 1957, when the Anti-localism Movement and the Anti-Rightist Struggle were happening but had not yet finished. This shows that the national leadership had strong confidence in the CPC’s organizational capacity to follow through the necessary personnel changes and believed that the policy preference divergence would be even lower. It was this perception of theirs that contributed to their confidence in pursuing the economic decentralization.

Secondly, there was also regional variation in the economic decentralization policies. Specifically, the most developed provincial units, including Shanghai, Liaoning, Beijing, and Tianjin, did not enjoy as much resources/authority decentralization as other provinces. In contrast, the least developed areas, such as the autonomous regions, were granted more fiscal and economic resources (Riskin, 1987, p. 107). Because this chapter’s focus is to show that political centralization of the CPC led to the overall drastic economic decentralization process during the Great Leap, I do not intend to explain the regional variation. However, I conjecture that this can be explained by the θ term in the formal model, i.e., the importance the national government placed on economic development vis-à-vis controlling the economic resources. Quite consistently throughout the PRC’s history, including, for instance, the economic decentralization process in the 1980s, the national government preferred to maintain strong control over the more economically developed regions while allow the less developed areas more autonomy to experiment with different economic policies. The mentality is that even if such policy experiments fail, the national government would still be able to maintain economic stability with the resources from the most developed regions. Given that the more

developed regions function as the insurance of policy experiments, the national government values maximizing the extraction of such regions' economic resources more than the speed of their economic development. On the other hand, for the least developed regions, the national government places higher priority on their local economic development than extracting their economic resources. According to the result of the game theoretical model, I conjecture that on the regional level, the higher priority the national government places on the region's local economic development vis-à-vis maximizing the national resources from this region, the higher the economic decentralization level is. This explains why more economically developed provinces did not experience as much economic decentralization as the less developed provinces.

4.4.5.2 Provincial Governments' Responses Consistent with the theoretical expectation, after the economic decentralization policies in late 1957 and 1958, the provincial governments all responded positively to the national government's call to pursue economic development in a radical manner. Again, there was indeed variation in provincial enthusiasm, but the overall provincial participation was active. No provincial leader contradicted the national government's policy agenda directly and all provinces followed the Great Leap policies.

For instance, in January 1958 Mao drafted the "Sixty Articles on Work Methods" (hereinafter referred to as "Sixty Articles"). In Article 9, Mao proposed that there ought to be three targets when planning the economic production. The central government has two targets (*liangbenzhang*): one must be fulfilled (*bicheng de*), which is publicized, and the other one needs to be strived for (*qicheng de*), which is not publicized. The local governments need to set two targets as well. Their "must-be-fulfilled" target needs to be the central government "strived-for" target and they ought to have their own "strived-for" targets. To create incentives for the local governments, there will be periodic assessments of the provinces, municipalities, and counties, etc. Such assessments will be based on the achievements of the "strived-for" targets, instead of the "must-be-fulfilled" targets. This proposal led each level of the local governments to emulate the central government and set two targets. Each level added on the "strived-for" targets they obtained from their higher level and passed the

new target down as “must-be-fulfilled” one to their lower level, causing dysfunction of the economic planning.

Another example is the local governments’ implementation of the radical agricultural policies, which have been shown to contribute to the Great Famine from 1959 to 1961. Particularly, the local governments facilitated a rapid and widespread collectivization process in rural China, i.e., forming the people’s communes. In four months from August to December 1958, the proportion of rural households that joined communes increased from around 30 percent to virtually 100 percent (Riskin, 1987, p. 123). This means that all local governments faithfully implemented the national government’s policy directives in establishing the people’s communes. As Riskin (1987, p. 123) observes, the varying local conditions, which made rural collectivization more suitable in some regions, e.g., the North China Plain, than others, did not prevent local governments from enthusiastically engaging in the collectivization efforts.

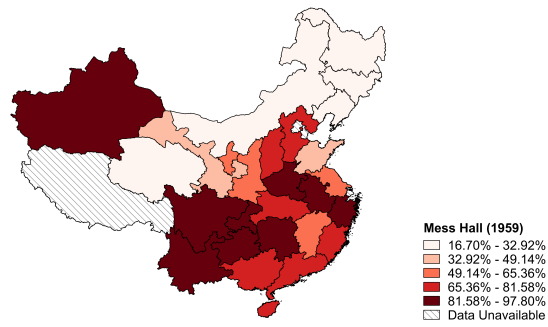
Table 4.3. Agricultural Collectivization Level: Participation in the Mess Halls

Province	Mess hall	Province	Mess hall
Henan	97.80%	Fujian	67.20%
Hunan	97.60%	Jiangxi	61.00%
Sichuan	96.70%	Shaanxi	60.80%
Yunnan	96.50%	Jiangsu	56.00%
Guizhou	92.60%	Ningxia	52.90%
Anhui	90.50%	Gansu	47.70%
Xinjiang	85.10%	Shandong	35.50%
Zhejiang	81.60%	Qinghai	29.90%
Guangxi	81.00%	Jilin	29.40%
Guangdong	77.60%	Heilongjiang	26.50%
Hebei	74.40%	Liaoning	23.00%
Shanxi	70.60%	Inner Mongolia	16.70%
Hubei	68.20%		

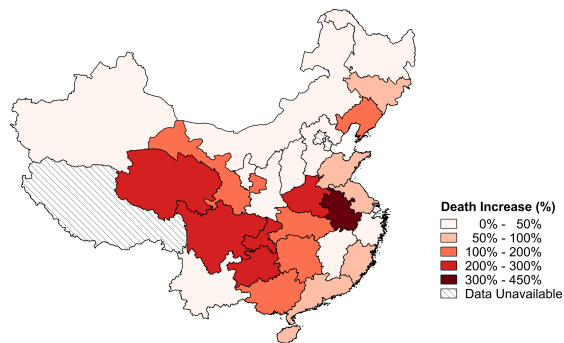
Source: Yang (1996, p. 57).

In a classic study on the Great Leap, Yang (1996, p. 57) collects data on the agricultural collectivization efforts at the provincial level, which he measures as the percentage of rural

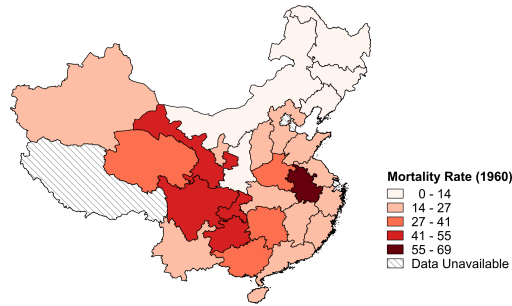
Figure 4.6. Agricultural Collectivization Level



(a) Participation in the Mess Halls



(b) The Relative Increase in Mortality Rates



(c) The Mortality Rates in 1960

Map (a) shows the percentage of the rural population that eat in the communal mess halls.

Map (b) shows the relative increase in the mortality rates in each province in 1959–62. The formula that Yang uses is: “Percentage increase in mortality rate = (highest mortality rate during 1959–62 – average mortality rate for 1956–58) ÷ average mortality rate for 1956–58” (Yang, 1996, p. 57).

Map (c) shows the provincial mortality rates (per 1,000) in 1960.

Data source: Yang (1996, p. 57).

population who participated in the commune mess halls, shown in Table 4.3. Because as of late 1959 the commune mess halls had not been mandated by the central government, there still was variation in provincial participation rates, which can illustrate the provincial fervor (Yang, 1996, p. 56). In Figure 4.6a, I map these data to show the nationwide pattern. The map shows that the least radical provinces were in the northeast, including Liaoning (23%), Jilin (29.4%), Heilongjiang (26.5%), and Inner Mongolia (16.7%), while the most radical ones were in the South. Guangdong Province’s participation rate was 77.6%, making it a member of the more radical provinces.

Comparing this map with the timing of the liberation map in Figure 4.2, there is a pattern that the new liberated areas showed more radicalism than the old liberated areas. In his book, Yang (1996, p. 59) also pinpoints this pattern. According to the data collected by Yang (1996, p. 57), this pattern was not only reflected in the provincial participation rates of commune mess halls, but also reflected in the relative increase of mortality rates

during the four years from 1959 to 1962 as well as the mortality rate in 1960. I show these statistics in another two maps (Figure 4.6b and Figure 4.6c). Yang (1996, p. 59) argues that this pattern was resulted from the early stage of the CPC's organizational development in the new liberated areas. Particularly, the new liberated areas had a lower density of party members. Compared to the old liberated areas, the new ones had more lower-level elites who wished to join the CPC and were motivated to participate in the radical policies. Yang refers to this phenomenon as *loyalty compensation*.

Yang's argument seems inconsistent with the argument of Zhang and Liu (2016). The latter two authors find that in Zhejiang province the local elites who did not have the close connections with the central government and thus lacking the top-down political support were more likely to protect local interests than pursue the radical policies that pleased the central government but harmed the local interests. Based on the evidence presented on Guangdong in the earlier discussion, I concur with Zhang and Liu (2016) that the native cadres in the southern provinces, such as Fang Fang, Gu Dacun, and Feng Baiju in Guangdong, were more likely to protect local territorial interests than pursue radical national policies, compared to the non-native ones, such as Tao Zhu and Zhao Ziyang. But if native cadres in the south were likely to protect their local interests, how do we explain this pattern that the new liberated areas in the south were more radical than the old liberated areas in the north?

The reason partly lies in the nature of the centralized political system. In particular, the central government constantly screened and purged the more independent-minded local cadres. After such purges, only the "loyal" cadres survived. They were "loyal" in the sense that they tended to faithfully follow the national government's policy agenda. Among these "loyal" cadres, the ones who were less connected to the central leadership, i.e., those in the southern provinces, were more motivated to demonstrate their "loyalty" by enthusiastically engaging in radical policies, compared to their northern counterparts. Conceptually, we can distinguish two stages: the pre-screening stage, when "nativism" played a more salient role; and the post-screening stage, when "loyalty compensation" was of more importance. Thus, the findings of Yang (1996) and Zhang and Liu (2016) are not entirely incompatible. Their arguments' validity depends on whether one examines the pre-screening stage or the post-screening stage.

The Great Leap happened at a time after China went through a series of tight political screenings in the form of rectification campaigns and purges. Thus, at that point in history, the political institution had filtered out a great deal of “nativism” and therefore enabled the “loyalty compensation” logic to play a greater role in shaping the pattern we observe in Figure 4.6. In this sense, this intriguing pattern, i.e., the new liberated areas showed more radicalism than the old liberated areas, confirms that the political campaigns had significant impacts on the policy preferences of the provincial leaders. Counterfactually, if the previous political personnel reshuffle had not been very effective, I expect that we would observe the opposite pattern, i.e., the native cadres in the south who were less connected with the central leadership would protect local interests and would not engage fully with the radical economic policies desired by the national government.

To summarize this section, at the beginning of the Great Leap Forward in 1958, there was a process of significant economic decentralization. As the central government anticipated, after the economic decentralization, the provincial governments faithfully implemented the radical economic policies despite their great costs for local economies. Theoretically, this is consistent with the equilibrium outcome where the national government chooses to have a high level of economic decentralization (setting x^* at x_I) and the subnational government chooses to implement the national policy directives.

4.5 CONCLUSIONS AND DISCUSSIONS

4.5.1 Main Findings

In summary, this chapter tests the theoretical model against the first historic economic decentralization episode in the PRC: the economic decentralization process during the Great Leap Forward in the 1950s. I find supportive evidence for all the links of the predicted causal mechanism in Figure 4.1. In addition, the case also supports the effects of two economic factors that are identified in the theoretical model but are not emphasized in the political story of Figure 4.1, namely the national government’s desire of economic development and

the limitations of a centralized economic system for a large and diverse country.

Firstly, I find evidence to support that the postrevolutionary regime in China was highly politically centralized. The high level of political centralization was not only guaranteed by the unitary constitutions (the Common Program and the 1954 Constitution), but was also resulted from the centralized system of the ruling party, the CPC. Specifically, I emphasize three features of the CPC that contributed to the centralized system of the PRC, namely (1) the CPC's highly disciplined party organization, (2) its tight control over the armed forces, and (3) the center's ideological control over the Party members. The fact that the CPC was established two decades before the PRC proved to be a critical initial condition that led to the PRC's centralized regime, because these centralized features of the CPC helped the Party to rapidly consolidate the new regime after 1949.

Secondly, I find supportive evidence for the second links of the causal mechanism: the local governments had similar economic policy preferences as the central government and the local officials had strong career incentives to pursue the central government's economic policy agenda. These two factors together constituted high deviation thresholds for the local officials, which imply that the local governments were unlikely to deviate from the central government's economic policies.

Through personnel control, the centralized political system of the PRC ensured the local officials shared the central government's economic policy preferences. Such personnel control included sending cadres from the old liberated areas to the new liberated areas, and organizing waves of rectification movements and purges, such as the anti-localism movement. The logic and impact of the anti-localism movement were illustrated by the case of Guangdong. In addition, the centralized political system also led to strong career incentives for the local officials to implement the central government's economic policies. Specifically, the CPC's heavy emphasis on Party discipline, the formal setup of the disciplinary organs in the CPC, and the less formal mechanism of periodic movements and purges all strengthened the central government's reward-punishment mechanisms and enhanced the local officials' career incentives.

Thirdly, the evidence drawn from the Guangdong case confirms the third link that the local governments indeed implemented the central government's economic policy agenda

in the early 1950s. The Guangdong case is illustrative, since it shows the impacts of the centralized political system on a province where the CPC had very weak presence prior to 1949. Specifically, it shows that by putting the non-native cadres in charge, the anti-localism movement indeed accelerated the land reform process. In addition, the evidence from Mei Xian and Qiaoxiang Village also confirms that the Party permeated all levels of local governments and ensured policy implementation at the county and village levels.

Fourthly, I also find supportive evidence that the central leaders, particularly Mao Zedong, anticipated that the local leaders would pursue the central economic policy agenda after the economic decentralization. The centralized political system helped Mao to select the local leaders who shared his own policy preferences, namely the radical type, and to continuously screen and select the loyal local leaders. The local leaders, in turn, proposed the radical economic targets that Mao preferred. Mao then leveraged this coalition of radical local leaders to balance against the pragmatist central leaders and advance his radical agenda of the Great Leap Forward. The local leaders' enthusiasm was on one hand a result of the centralized political system, while on the other hand increased Mao's trust in their willingness to carry out the Great Leap. Such a trust constituted a political incentive for Mao to decentralize the economic authority to local governments. In addition, the economic incentives for higher economic decentralization included Mao's desire of a rapid economic development and perception that a centralized economic structure would impede the development for a large and diverse country like China.

Finally, the evidence confirms that at the beginning of the Great Leap Forward in 1958 the central government decentralized economic authority and resources to local governments. In addition, the evidence also supports that despite economic decentralization, the local governments pursued the central government's radical economic policy agenda, despite the costs incurred on the local economies. This outcome is consistent with the equilibrium outcome derived from the theoretical model.

4.5.2 Implications

The findings of this chapter has implications for better understanding the Great Leap Forward in China. Currently, there is an ongoing debate in the political science literature that analyzes the provincial variation during the Great Leap Forward. [Kung and Chen \(2011\)](#) theorize that the career prospects of the provincial leaders drove them to behave differently. Those provincial leaders that had more promotion opportunities were more likely to implement radical policies and as a result their provinces were more severely harmed by the Great Famine. [Yang, Xu and Tao \(2014\)](#) question both the theoretical premises and the empirical evidence of [Kung and Chen \(2011\)](#). They believe the other direction of the causal chain was stronger in shaping the provincial performance during the Great Leap Forward: rather than promotion incentives driving performance, it was the officials' previous background that determined both their careers and their performance. Specifically, they find that the provincial leaders appointed in 1956 and in 1958 took their positions because they belonged to Mao's faction. Therefore, these newly appointed leaders were loyal to Mao and behaved more radically than others.

Based on the discussions in this chapter, I consider these two mechanisms proposed by these two prominent studies function as two sides of the same coin—the high level of political centralization of the CPC. The first mechanism—career prospects—describes the reward-punishment mechanism. [Kung and Chen \(2011\)](#) only examined the provincial leaders and empirically measured their career prospects as whether they were alternate members of the CPCCC, which was sharply criticized by [Yang, Xu and Tao \(2014\)](#). However, the criticisms of such an empirical strategy and even the statistical results could not disconfirm their theory that provincial leaders' career incentives mattered. As this chapter shows, even though promotion may not be the main driving factor for provincial leaders' behaviors, political purges were very real and thus were expected to be on the provincial leaders' minds and shape their behaviors. This is to say that even if we can disprove the effects of the rewards,²¹ we still cannot disconfirm the effects of the career punishments.

²¹Even disproving the impacts of the career rewards requires more evidence. The critical evidence provided by [Yang, Xu and Tao \(2014\)](#) is very convincing; however, it only shows that the motivations of the provincial leaders did not work as the way hypothesized by [Kung and Chen \(2011\)](#), i.e., the alternate members of the CPCCC were more radical than the full members. But provincial leaders could be motivated in other more

In the meantime, the second mechanism identified by [Yang, Xu and Tao \(2014\)](#) and theorized and empirically supported by [Arcand et al. \(2016\)](#)—the appointment of Mao’s factional members to provincial leadership positions—describes the policy preference divergence mechanism. Building on the contract theory, [Arcand et al. \(2016\)](#) argue that the reason for Mao to promote his factional members was because he did not have the perfect information on the unobserved “loyalty” level of the provincial leaders. By offering promotions, Mao was able to elicit the information about the provincial leaders’ loyalty. The key in their theory is “loyalty,” which they conceptualize as the subnational governments’ discount factor of pursuing radical policies preferred by the national government ([Arcand et al., 2016](#), p. 11). This is perfectly consistent with the policy preference divergence hypothesis developed in this chapter. The more “loyal” the provincial leaders were, the more conforming they were to the national government’s radical policy agenda. Belonging to Mao’s faction, according to [Arcand et al. \(2016, p. 15\)](#), means that their loyalty passed “some minimum threshold.” Thus, by appointing his factional members, what Mao achieved was to appoint officials who shared his radical policy preferences. As their statistical results show, Mao was indeed more likely to appoint his factional members and these factional members were also more radical than their counterparts ([Arcand et al., 2016](#), pp. 41–46).

It should not be controversial that in a highly centralized political system, both mechanisms were at work. In fact, the central leadership was able to maintain a strong reward-punishment mechanism to incentivize the subnational government officials while at the same time ensure the low level of policy preference divergence between the central and local governments through personnel reshuffle. Instead of competing theories, these two mechanisms are two aspects of the same feature of China’s political system at the time: a high level of political centralization. If this conclusion is valid, i.e., the career incentives and the pattern of Mao appointing his factional members coexist as a result of the highly centralized CPC,

complex ways. As [Yang, Xu and Tao \(2014, p. 867\)](#) also state in their paper, the full members could be similarly motivated as the alternate members. To show the null statistical results between full and alternate members does not mean that such a motivation did not exist. It only means the alternate members and full members were similarly motivated. In addition, in Mao’s “Sixty Articles,” Mao specifically designed that there ought to be competition among each level of the subnational governments to motivate local leaders in implementing the national government’s policy agenda. If Mao designed such competitions, it is hard to imagine that local leaders would not be rewarded if they pleased the national government, or at least be motivated by the potential rewards.

it is more helpful to understand how each mechanism worked and how they complemented each other than treat them as competing hypotheses to find the “correct” theory.

Understanding how political and economic (de)centralization worked during the Great Leap Forward in China, one of the worst economic disasters in China’s history, can also shed light on how different levels of economic decentralization affect a country’s economic performance. In particular, the Great Leap experience shows that a high level of economic decentralization is not a panacea for economic growth, if the subnational governments did not have the right incentives to develop their local economies.

This skeptical view of economic decentralization per se is not new. For instance, [Rodden and Rose-Ackerman \(1997\)](#) present various scenarios when economic decentralization could be costly for economic performance. Under the authoritarian context, instead of protecting the market, local governments could be incentivized to extract rents, engage in corruption and confiscation ([1997](#), p. 1545). Moreover, they are skeptical that the combination of a strong benevolent regulatory central government and a high level of economic decentralization is sustainable. As a conclusion, they propose that approaching the problem only from the economics perspective is not enough. Instead of making assumptions about the political institutions and dynamics, scholars should better understand the interaction between political and economic institutions and identify those political conditions under which the economic decentralization works or does not work. Along the same line, by comparing the experience of Russia and China, [Blanchard and Shleifer \(2001\)](#) argue that Russia’s experience shows economic decentralization alone is not sufficient for good economic performance. The cause for China’s good economic performance since the 1980s lies in the fact that China combines economic decentralization with political centralization. China scholars also confirm the positive impacts of the high level of political centralization on China’s economic performance during the reform era ([Landry, 2008](#)).

On the one hand, China’s experience during the Great Leap confirms that we need to continue the route pointed by the above studies: political institutions are essential for understanding the effects of economic decentralization. Moreover, the evidence here suggests that it is very likely that political centralization and economic decentralization interacts with each other. In this case, the high level of political centralization facilitated economic

decentralization. This conclusion supports the idea that only assuming political institutions as if they are exogenous is problematic.

On the other hand, adding to the current understanding, the evidence in this chapter suggests that the combination of political centralization and economic decentralization could lead to economic disasters as well. With such a combination, the economic outcome for the most part depends on the national government's decisions, which can be good or bad. When they are bad as in the case of the Great Leap, the economic outcome could be catastrophic, even when the national government's intentions are benevolent, i.e., to develop China's economy at a fast speed.

5.0 MEXICO (1917–1948)

5.1 INTRODUCTION

The previous chapter tests and confirms the causal mechanism between a high level of political centralization and the economic decentralization policies in China in the 1950s. This chapter tests the causal mechanism between a high level of political decentralization and the economic centralization policies in the first three decades of Mexico’s postrevolutionary regime. As discussed in Chapter 3, each of the two chapters uses the theory-testing process-tracing method to test the causal mechanisms between the two variables of interest: political centralization levels and economic (de)centralization policies. These two chapters together constitute a method of difference design, to demonstrate the causal relationship between the levels of political centralization and economic (de)centralization.

In the next section (5.2), I briefly summarize the main relevant historical events following a chronological order to set the historical background. In Section 5.3, I present the causal mechanism predicted by the theoretical model (Figure 5.1), which is tested in Section 5.4. Each subsection in Section 5.4 discusses the historical evidence for a link of the causal mechanism. Section 5.4.1 provides supportive evidence for the first link, namely the political system in Mexico was politically decentralized. In this section, I also elaborate on the impact of the Mexican revolution on the level of political decentralization of the postrevolutionary regime. Section 5.4.2 discusses the evidence of the state governments’ low deviation thresholds, including the analyses of the two determining factors of the deviation thresholds, namely the state governments’ independent policy preferences and their lack of career incentives to follow the federal government’s economic policy agenda. Section 5.4.3 presents the evidence of the state governments’ economic policy deviations, including two cases that show

how the strong governors in the 1920s and 1930s were able to pursue economic policies different from the federal government's policy agenda, as well as the general pattern of the state governments' fiscal policy deviations. In Section 5.4.4, I show that although the Mexican federal government was more ideologically pragmatic than the Chinese central government, the federal officials were indeed frustrated by their inability to create the common national market and desired a high level of fiscal centralization. Section 5.4.5 discusses the evidence for the final link of the causal mechanism: the fiscal centralization policies pursued by the federal government from the 1920s to the 1940s and the state governments' responses. Finally, in the concluding section (5.5), I summarize the main findings, discuss the limitations of the model and two alternative explanations, and comment on the broader implications.

5.2 HISTORICAL BACKGROUND

The period studied in this chapter covers around three decades from 1917, the year of the promulgation of the Mexican Constitution, to 1948, the year of the establishment of the national sales tax (*Impuestos sobre Ingresos Mercantiles*, ISIM). The rationale for selecting this period, notably much longer than the period covered in the Chinese case, was for it to cover the first episode of the fiscal centralization process in the Mexican regime, which took longer than the first episode of economic decentralization in China.

Mexico gained its independence from Spain in 1821. It became a republic in 1824. The country was dominated by a *caudillo*¹ president, Antonio López de Santa Anna, from 1824 to 1854. Mexico's defeat in the Mexican-American War in mid-19th century weakened Santa Anna's regime, which was eventually overthrown by the liberals. The liberals implemented the Liberal Reform and established a new constitution in 1857, which codified the liberal principles and weakened the power of the Church. The Reform in turn triggered a civil war between the liberals and the conservatives. But as the conservatives were defeated militarily by the liberals, they invited France to intervene. In 1861, the French troops invaded Mexico and installed Maximilian as the emperor of Mexico in 1864. During this period, the US

¹ *Caudillo* refers to a political strongman who often has a military background.

did not intervene due to its own Civil War. But as the American Civil War ended, the US began to support the liberal forces and oppose the French intervention in Mexico, resulting in the French troops' retreat. In 1867, the liberal leader Benito Juárez regained full power as president while Maximilian was executed. Juárez stayed in office until his natural death in 1872. The regime continued under the presidency of Sebastián Lerdo de Tejada (1872–1876), until Porfirio Díaz's military coup in 1876.

Porfirio Díaz ruled Mexico for more than three decades (1876–1911). The period was commonly known as the Porfiriato. The rule of Porfirio Díaz was a typical neocolonial dictatorship (Chasteen, 2016, pp. 208–209). Díaz intervened in the elections to make sure only his candidates were elected, weakened the regional *caudillos*, and controlled the press. In the meantime, Díaz prioritized the economic modernization, by encouraging foreign investment, expanding public expenditure on building infrastructure, and ruthlessly repressing labor and peasants.

The social forces that were repressed during the Porfiriato joined a revolution in the 1910, forcing Díaz to resign in 1911. The leader of the rebellion, Francisco I. Madero, became the president in 1911. As a moderate liberal, Madero faced opposition from both the radical groups and the conservative forces. In 1913, the conservative general Victoriano Huerta organized a military coup, arrested and assassinated Madero. This tragedy further inflamed the revolutionary forces to rise again and led to the violent wars between the old regime and the revolutionary forces, as well as among the revolutionary factions.

The Mexican revolution was spontaneous. In a large and diverse country, the revolutionary actors and their demands were heterogeneous and regionally specific. This resulted in a regionally fragmented revolution, which implied not only the scatter of conflicts, but also the emergence of many factions with different demands, including the three major factions, namely the Zapatistas, the Villistas, and the Constitutionalists. As an initial condition, this regionally fragmented nature of the revolution is crucial for understanding the postrevolutionary regime. It will be discussed in more detail in Section 5.4.1.2. In 1915, the Constitutionalists defeated the Zapatistas and Villistas and the leader of the Constitutionalists Venustiano Carranza emerged as the national leader (Tannenbaum, 1964, pp. 58–59).

In 1917, Carranza promulgated the Mexican Constitution, which also incorporated the

demands of the Zapatistas and Villistas. Carranza served as the constitutional president until the Agua Prieta revolt in 1920, initiated by the Sonoran generals, Adolfo de la Huerta, Álvaro Obregón, and Plutarco Elías Calles. The rebellion was joined by other generals throughout the country, resulting in Carranza's fleeing from Mexico City and eventual death in May 1920 ([Tenenbaum, 2005](#)).

The successful Agua Prieta rebellion began the 15-year so-called "Sonoran Dynasty" (1920–1934), during which the Sonoran leaders, Obregón and Calles, dominated the national stage. During Obregón's presidency (1920–1924), the regional *caudillos* were strong. Obregón gradually demilitarized the country by lending his support to the young and civilian governors, who relied on the labor unions and agrarian leagues vis-à-vis military troops. From 1924 to 1928, when Calles was the president, the federal government sought to centralize both political power and fiscal authority. Politically, Calles's approach was blunter than Obregón's. He deposed and killed those politically vulnerable governors who were not Callistas. But some powerful regional *caudillos* remained untouched. Fiscally, during Calles's presidency, the Secretariat of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*, SHCP) organized the First National Tax Convention in 1925, in an attempt to centralize fiscal authority and reform the constitution. But the fiscal efforts faced strong opposition from the states and failed. In 1928, Obregón won the presidential election again but was assassinated by a religious fanatic. Calles seized this opportunity to establish the official party, the National Revolutionary Party (*Partido Nacional Revolucionario*, PNR), as a way to internalize the conflicts among the regional chiefs. Fiscally, the failures to systematically centralize fiscal authority forced the Calles administration to adopt a gradual approach, namely to federalize the excise taxes on large industries and natural resources² one industry at a time. Calles did not run for reelection but remained the leader for the next six years, which was referred to as the period of the *Maximato* (1928–1934). The PNR maintained its territorial structure as the federal leaders were unable to impose a centralized structure ([Scott, 1959](#); [Benjamin, 1990](#); [Aboites Aguilar, 2003](#)).

The "Sonoran dynasty" ended in 1934, when the most socially progressive president,

²The excise taxes (*impuestos especiales*) refer to the indirect taxes imposed by the federal as well as state governments on a specific activity, for instance, the mining industry, the oil industry, or the henequen industry ([Aboites Aguilar, 2003](#), p. 391).

Lázaro Cárdenas, became the president. Cárdenas built his political support by organizing the labor and the agrarian interests. This strategy not only helped him to weaken the former chief, Calles, but also facilitated a political centralization process. In 1938, Cárdenas dissolved the PNR and replaced it with the new Party of the Mexican Revolution (*Partido de la Revolución Mexicana*, PRM), which had a more centralized corporatist structure. Economically, Cárdenas implemented redistributive policies, such as the land reforms that promoted the *ejidos*, which granted peasants a collective ownership of the land, and corporatist labor policies, which positioned the government as an intermediary between labor and the industrialists. Fiscally, Cárdenas continued with the gradual process of federalizing the excise taxes ([Scott, 1959](#); [Aboites Aguilar, 2003](#)).

The presidency of Manuel Ávila Camacho (1940–1946) was less eventful than his predecessors, but the political and fiscal systems steadily became more centralized. Politically, Ávila Camacho reformed the party again, without drastic structural changes except abolishing its military sector and shifting its members to the popular sector, renaming the party as the PRI in 1946. He also turned to a more conservative direction, by bringing conservatives to power in the labor sector and reducing the influence of the labor and peasant sectors. Fiscally, during his term, he again continued with the gradual strategy of federalizing individual excise taxes. The Congress of the Union passed constitutional reforms to codify the existing practices without radical fiscal reforms. Despite the lack of radical changes, both the political and fiscal systems steadily became more centralized ([Benjamin, 1985](#); [Aboites Aguilar, 2003](#)).

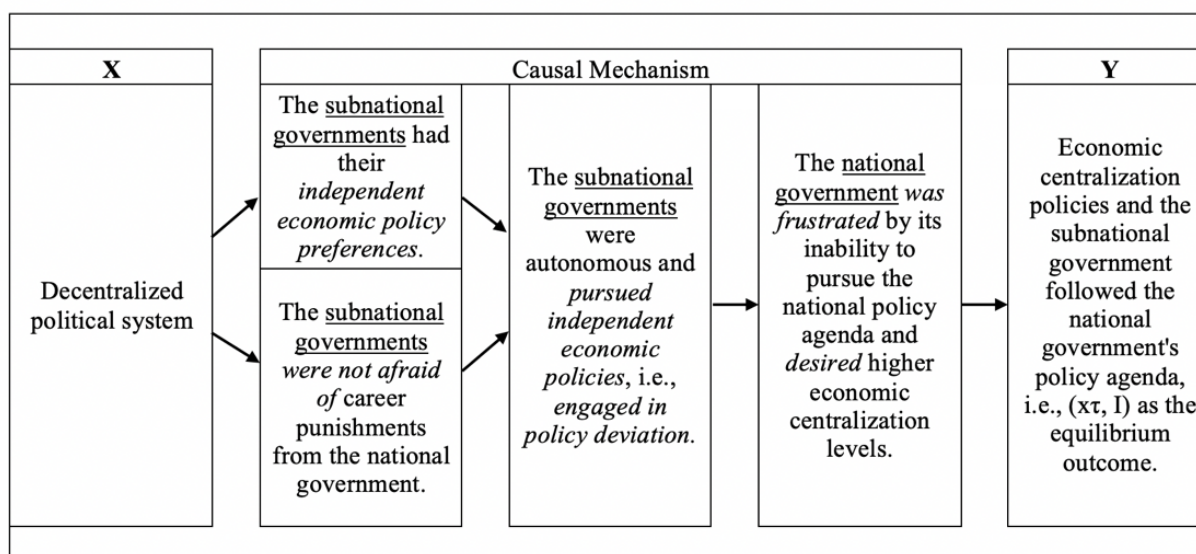
The final presidency covered in this chapter is that of Miguel Alemán (1946–1952). Politically, Alemán further strengthened the central authority through the PRI. For instance, the national elites imposed more governors than Ávila Camacho and Alemán's immediate successors, President Adolfo Ruiz Cortines and President Adolfo López Mateos ([Anderson, 1971](#), p. 89). Fiscally, Alemán and his SHCP reassumed the more systematic fiscal centralization agenda of Calles. In particular, he organized the Third National Tax Convention and established the national sales tax, the ISIM, in 1947. His fiscal centralization efforts again faced state opposition and received setbacks, which will be discussed in more detail later, but his presidency was considered to be a peak of the fiscal centralization process in

the postrevolutionary regime (Aboites Aguilar, 2003, p. 216). Thus, I end this chapter's discussion with the establishment of the ISIM in 1948.

5.3 PREDICTED CAUSAL MECHANISM

As introduced in Chapter 3, the goal of this chapter is to test whether the causal mechanism which links political decentralization and economic centralization functioned as predicted by the theoretical model in the early period of the Mexican authoritarian regime. Figure 5.1 draws the expected causal mechanism.

Figure 5.1. The Predicted Causal Mechanism between Political Decentralization and Economic Centralization in Mexico



In the Mexican case, political decentralization—defined as the national government's lack of control over the political career of the subnational government officials—is expected to have two consequences: (1) to survive the political competition that was relatively independent from the national government's influence, the subnational government officials developed their own independent economic policy preferences; and (2) because the national government's lack of leverage over the subnational government officials' careers, the subnational government officials were not afraid of the negative consequences for ignoring the

national government's economic policy agenda. These two factors are expected to result in a rather low deviation threshold, which means that the subnational government officials are highly likely to deviate from the national economic policy agenda to pursue their own preferred economic policies. Conditional on that the national government valued the implementation of its preferred economic policies but lacked the political capacity to make the subnational officials do so, the national government would desire a higher level of economic centralization. It is expected that the national government would consequently pursue economic centralization policies so that the economic centralization level is high enough that the subnational officials would follow the national government's economic policy directives as an equilibrium outcome.

Before I present the process-tracing evidence in the next section, I acknowledge that treating the Mexican system from the 1920s to the 1940s as a politically decentralized system may seem odd to the Mexican scholars, since the previous literature on Mexico often considers the Mexican political system under the PRI governments to be highly centralized ([Tannenbaum, 1964](#); [Brandenburg, 1964](#); [Langston, 2017](#)). As discussed at the end of Section 3.1 in Chapter 3, I have two main justifications for selecting the Mexican case as a politically decentralized one. Firstly, the Mexican political system was relatively decentralized in the early years of the PRI's authoritarian rule. There was indeed an aggressive political centralization process from the 1920s to the 1940s and I will discuss this process and its impacts on the political interactions between the federal and state governments. But as I will show in more detail later, the political system by the 1940s was not centralized enough for the federal government to trust that the state governors would pursue the federal economic agenda. Secondly, the benchmark case with which I compare the Mexican system is the Chinese system in the 1950s. The Mexican system was much more politically decentralized throughout the three decades than the Chinese system in the 1950s.

The following section evaluates the validity of each statement shown in Figure 5.1 to test whether the historical evidence supports the expected causal mechanism linking political decentralization and the economic centralization policies.

5.4 PROCESS-TRACING EVIDENCE

In this section, I follow the order of the causal mechanism in Figure 5.1 and discuss the historical evidence for each link in each subsection.

5.4.1 Decentralized Political System

Two factors contributed to the high degree of political decentralization in the Mexican regime from 1917 to 1948: (1) its *de jure* federal system that stipulated that state governors must be elected; and (2) the highly decentralized nature of the Mexican revolution. These two factors together contributed to a high level of political decentralization at the early stage of the postrevolutionary regime in the 1920s. Over time in the three decades from 1920s to the 1940s, however, the level of political decentralization in Mexico did not stay constant. As the postrevolutionary regime consolidated, the national leaders gradually took power away from the regional strongmen and established the central authority through the establishment of the official party, banning consecutive elections of all political posts, and reducing the political influence of the military (Langston, 2017, pp. 32–38; Eckstein, 1977, pp. 34–35). This political centralization process markedly reduced the state governments' incentives to confront and defy the federal government, but as the following discussions show, because the system was highly decentralized in the 1920s, after three decades of political centralization efforts, the system was still relatively decentralized compared to the Chinese case.

5.4.1.1 Federal Constitution Firstly, the 1917 constitution established a federal system in Mexico, although historically the country had a centralist tradition and had both centralist and federal constitutions (Mecham, 1938). The formal institutions established by the 1917 constitution required that Mexico's state governors to be elected to their offices, which provided a legal foundation for Mexico to maintain a politically decentralized system.

However, the constitution alone could not determine a country's level of political centralization. In the Mexican case, after Mexico had adopted the federal Constitution of 1857, its political centralization levels still fluctuated. During the dictatorship of Porfirio Díaz prior to

the revolution, the political system was relatively centralized. During his reign, Díaz built a personalist political system and he maintained strong control over the personnel of the state governors and the *jefes políticos* (the president-appointed district commissioners). The subsequent regime under President Francisco I. Madero (1911–1913) attempted to revive the federal tradition and restore the authority and democratic elections for governors. But Madero’s democratic ideal failed to be realized because of the political instability. A coup led by the conservative general Victoriano Huerta in 1913 overthrew and killed Madero. The ensuing decade of the 1910s witnessed violent revolutionary civil wars, which resulted in a disintegration of the central political authority and a very high level of political decentralization (Beezley, 2009, pp. 2–3).

5.4.1.2 A Revolution without Party In addition to the federal constitution of 1917, the decentralized nature of the Mexican revolution also significantly contributed to the high level of political decentralization of the postrevolutionary regime.

One of the key differences between the Chinese revolution that ended in 1949 and the Mexican revolution of the 1910s is that in China, the highly centralized and ideological CPC was established in 1921 prior to the establishment of the regime. The CPC controlled the revolutionary army and thus was able to quickly establish a centralized political system after 1949. In comparison, in Mexico, the revolutionary civil wars in the 1910s involved regional armies led by powerful regional strongmen, who were not organized under a centralized political institution. The hegemonic party PRI was only established in 1946, whose predecessors came into existence as the PNR in 1929 and the PRM in 1938. The PNR was initially founded as an institutionalized solution to contain the violent factional conflicts among the regional revolutionary forces in the 1920s.

As the initial condition, the order of the two events, namely the ruling party establishment and regime establishment, led to China’s and Mexico’s distinct paths of intergovernmental relations.

Lacking a unified revolutionary army which was commanded by a centralized political authority entails that the revolutionary forces in Mexico were highly decentralized. The highly decentralized nature of the Mexican revolution resulted in the strengthening of control

of the *caciques* (regional bosses) ([Middlebrook, 1995](#), p. 23).

In Mexico in the early 1910s, three major regional factions engaged in the revolution to overthrow the old regime. Their different regional origins with distinct economic and social conditions gave rise to their distinct ideologies. These regional forces included: (1) the peasant insurgents led by Emiliano Zapata in central Mexico; (2) the middle-class Constitutionalists in northern Mexico, mainly in the states of Coahuila and Sonora; and (3) the military force led by Pancho Villa that incorporated both the rural poor and the middle class in Chihuahua, another northern state ([Tutino, 1990](#), pp. 44–53).

The Zapatista movement in central Mexico was mainly driven by the long-standing conflict between villagers and the landowning elites. The villagers were dominated by the Spanish colonists since the colonial period, but their conditions deteriorated during the Porfiriato since the 1880s, as a result of the rapid sugar production expansion that seized more land and water resources from the villagers. Compared to the other two regional factions, the Zapatista movement had coherent social and economic bases. Its ideological program focused on “village rights to land for peasant production and local political independence” ([Tutino, 1990](#), p. 44–46).

The middle-class Constitutionalists who emerged mainly in the two northern states, Coahuila and Sonora, had their grievances originated from the development during the Porfiriato. Firstly, because Porfirio Díaz appointed his loyal dependents to important political positions, the traditional families lost political power. Secondly, the rapid development of the silver and copper mines, cattle ranches, and other enterprises during the Porfiriato also led to grievances among the northern working majority. Different from the Zapatistas, the resulting ideology of the Constitutionalists was “liberal, statist, nationalist, and populist” ([Tutino, 1990](#), pp. 48–49).

It was liberal in promoting an entrepreneurial, capitalist vision of Mexico’s future, insisting on private property, social individualism, and a limited role for the traditional church. It was statist in demanding a strong national state as the necessary means to promote the liberal economic goals. It was nationalist, not by seeking to isolate Mexico from international influences, but by demanding more Mexican control over Mexican politics and Mexican involvement in the international economy. And it was populist in insisting that the state and economic elites would provide for the well-being of the masses ([Tutino, 1990](#), p. 50).

The third faction, led by Pancho Villa, arising from another northern state, Chihuahua, insisted on recruiting the rural poor as well as the middle class. But the rural poor of northern Mexico were different from central Mexico, the origin of the Zapatistas. The rural poor in the northern states often owned private property. They were mobile and were often hispanic individuals and families. Unlike the Zapatistas who demanded collective land ownership by the villages because of their indigenous traditions, the rural poor in the north demanded land to be returned and the creation of small holdings. In addition to the rural poor, Villa also incorporated members of the middle class and elites who were dissatisfied with the old regime. These different social groups contributed to the large size of the Villista army, but their heterogeneous demands also created fatal internal contradictions. The Villista movement was not able to develop a clear ideology (Tutino, 1990, pp. 51–52).

In 1915, the Constitutionalists defeated the other two major factions and Venustiano Carranza secured his power as the national leader of the revolutionary regime. But the legacy of the revolution's decentralized nature lasted beyond the defeats of the Zapatistas and Villistas. It took the next three decades for Mexico to establish the PRI, a ruling party that was not dominated by military generals and structured in a relatively centralized manner. Compared to the half decade in the 1950s when the CPC consolidated a highly centralized and civilian political system, the time that the Mexican revolutionary leaders spent on regime consolidation was much longer and the subsequent political system was also far less centralized.

5.4.1.3 Postrevolutionary Regional Fragmentation As a consequence of both the federal constitution and the de facto decentralized revolutionary process, the 1920s were marked by regional fragmentation. The states were ruled by the regional *caudillos*, many of whom obtained their political power through fighting the revolutionary wars with the winning side, namely the Constitutionalist army.

Some of these regional leaders later took the national political stage. Among them were the two influential postrevolutionary presidents, President Plutarco Elías Calles (1924–1928 as the president; 1928–1934 as the maximum leader [*jefe máximo*]) and President Lázaro Cárdenas (1934–1940). Some others who were unable to become national leaders remained

influential in their regions, and some of these leaders' political legacy lasted for decades through their political and family ties. For instance, Maximino Ávila Camacho, the governor of Puebla from 1937 to 1941 and brother to the Mexican President Manuel Ávila Camacho (1940–1946), “founded a political dynasty that would come to include the six subsequent state governors (including Maximino’s brother, Rafael) as well as numerous state and union officials who dominated political scene into the 1970s” ([Henderson and LaFrance, 2009](#), p. 157). I will discuss Governor Maximino in detail in Section [5.4.3.2](#).

The Plan of Agua Prieta in 1920 is one example that can showcase the weak federal government’s control over strong regional leaders in this period. It was the last successful regional revolt that overthrew the federal government and resulted in the death of the first post-1917 constitutional president, Carranza. The direct cause for the revolt was that the Sonoran generals resented Carranza’s attempt to impose the little-known civilian Ignacio Bonillas, then the Mexican ambassador to Washington, as his puppet successor. Instead, the Sonoran faction preferred their own candidate, General Álvaro Obregón, who had fought and won numerous campaigns for the Constitutionalist forces and played a key role in defeating the Zapatistas and Villistas ([Tenenbaum, 2005](#), p. 265). There was also an indirect but equally important cause for Carranza’s downfall, which was his loss of popularity. He did not pursue the social revolutionary agenda prescribed in the 1917 constitution. Instead, he “ordered the wholesale restitution of haciendas seized during the revolution” and also ended his alliance with the Mexican City workers ([Knight, 2008](#), p. 137). Such policies of Carranza frustrated his previous supporters and caused social unrest.

As a result, in April 1920, the generals from Sonora, including Adolfo de la Huerta, Obregón, and Calles, declared in the Plan of Agua Prieta that President Carranza had repetitively violated the sovereignty of the states and distorted the organization of the republic and proclaimed that they were in revolt against the Carranza government ([Obregón, 1920](#)). “Within a week the rebellion had won the support of most of the generals throughout the country; President Carranza fled Mexico City on 14 May” ([Tenenbaum, 2005](#), p. 265) and died in May 1920. De la Huerta, then the governor of Sonora, became the provisional president from June to November 1920. In December 1920, the Sonoran general Obregón became the constitutional president, marking the beginning of the 15 years of the so-called

“Sonoran Dynasty” (1920–1934), during which the Sonoran chiefs stabilized the political system and began to institutionalize the revolution (Knight, 2016, pp. 75–78).

Two aspects of the Agua Prieta revolt illustrate the low degree of political control that the federal government held over the state governments. Firstly, the strength and final victory of the Sonoran chiefs exemplifies how regional strongmen who had gained their political positions and military prestige during the revolution were able to overthrow an unpopular federal government. Especially for General Obregón, the revolutionary wars enabled him to become a national political figure with great military prestige and thus made it possible for him to form a coalition to challenge and finally defeat Carranza. Secondly, it would not have been possible for the Sonoran chiefs to overthrow the Carranza government without the support from the other generals in other states. Thus, Carranza’s relatively conservative policies also contributed to his downfall, because these unpopular policies led to the formation of a coalition between the Sonoran chiefs and the generals in the other states. During this period, despite their status, neither Carranza nor Obregón was able to dominate the Mexican political arena and keep the *caudillos* in line. It was also virtually impossible for the presidents to send their loyal followers to the states where they had weak popular support, unlike the postrevolutionary regime in China. The national leaders had to carefully build coalitions with the regional *caudillos* in order to maintain their rule at the federal level.

To visualize the distribution of the regional strongmen, Figure 5.2 maps the career backgrounds of the state governors after the Plan of Agua Prieta in late 1920.

The majority of the Mexican federative entities (at least 22 among the 32 entities) had governors with military experiences in the revolutionary wars. Among these 22 governors, about half had obtained the military rank of general officer by 1920. In the Mexican case, the decentralized nature of the revolution led to a decentralized armed forces, meaning that the armed forces were controlled not by the federal leaders but by the local generals. With these armed forces under their command, the local generals were able to translate their military power into political influence. Thus, the pattern in Figure 5.2 not only displays the high prevalence of military men as governors, but also implies that the political system was highly decentralized. The decentralized armed forces both led to and sustained the decentralized political system. Since then the Mexican political system experienced a political centraliza-

Figure 5.2. The State Governors in 1920



Sources: [Camp \(1991\)](#), [Coahuila State Government \(N.d.\)](#), [Naranjo \(1935\)](#), [Romero Flores \(1985\)](#), [Careaga Viliesid and Higuera Bonfil \(2010\)](#), [Rendón Garcini \(1996\)](#), and [Martínez Marañón \(1962\)](#).

tion process. However, this legacy left by the decentralized revolution limited the degree of political centralization that the Mexican system reached in the later years of the twentieth century, especially when compared with the Chinese case.

5.4.1.4 The Political Centralization Process (1920–1946) Since 1920, the federal administrations were able to consistently pursue political centralization, as the revolutionary regime consolidated and became institutionalized. By 1948, the political system was indeed more centralized, as the President and the federal government obtained more authority, but it was still much less centralized than the Chinese case prior to the Great Leap Forward.

The Pacification Phase (1920–1928): The 1920s were marked by the federal government’s efforts to decrease the strength of the military chiefs in the states and establish unified command over the army. By the end of the 1920s, Obregón and Calles “succeeded in using their own military prestige to reduce the military’s size and budgetary resources and to channel the ambitions of revolutionary generals into private enterprise and political positions such as state governorships” ([Middlebrook, 1995](#), p. 24).

Against the backdrop of the Agua Prieta revolt in 1920, Obregón adopted a pragmatic strategy to decrease his dependence on the military chiefs: on the one hand, the Obregón’s government (1920–1924) did not radically try to control the regional *caudillos*. Instead, he restrained from interfering with local matters and tolerated both conservative and progressive *caudillos* and governors. On the other hand, Obregón also carefully lent his support to the “young governors whose local power was based upon control of the bureaucracy of the state governments and the creation ‘from above’ of labor unions and agrarian leagues” to tip the balance of state politics against the military chiefs “whose power was based upon troop strength” ([Benjamin, 1990](#), pp. 72–73).

During Calles’s presidency (1924–1928), he continued to strengthen the federal government’s control by establishing alliances with campesino and worker organizations. But unlike Obregón who allowed for local autonomy, Calles went a step further in strengthening the federal authority in Mexico City. In particular, different from Obregón’s strategy of relying on the progressive governors to build popular support to balance the regional military chiefs, Calles relied on a federal organization, the Regional Confederation of Mexican Workers (*Con-*

federación Regional Obrera Mexicana, CROM) led by Luis Morones to rein in the state labor organizations (Benjamin, 1990, p. 80). Moreover, as an ambitious president, Calles strategically built up his own political base that was independent from that of Obregón. Since Obregón still enjoyed the support of the agrarian interests, Calles relied more heavily on the labor unions. The consequence of Calles's strategy was a growing division between the *agrarista* and *laborista* camps by 1928 (Scott, 1959, p. 120). In terms of his relationship with the regional leaders, Calles adopted a blunter approach. Calles deposed and killed those "progressive and radical governors and agrarian leaders who were politically vulnerable," resulting in the "ousting of over twenty-five governors in fifteen different states." Despite such blunt measures, powerful regional *caudillos* who had strong control over their states, such as Emilio Portes Gil in Tamaulipas and Saturnino Cedillo in San Luis Potosí, were able to "resist Calles's political offensive" and kept their power (Benjamin, 1990, p. 80).

By building political alliances with the campesino and worker organizations, Obregón and Calles not only facilitated the demilitarization process but also won themselves enough support to avoid being overthrown by the regional revolts (Tannenbaum, 1964, pp. 65–69). Moreover, the successful repression of regional revolts in the 1920s, which include "the de la Huerta rebellion, the Gómez-Serrano revolt of 1927, and the Cristero rebellion of 1926–1929," was in turn instrumental for the strengthening of the federal government (Benjamin, 1990, p. 82). For instance, when General Adolfo de la Huerta launched a revolt against Obregón in late 1923, "more than fifty generals and about 60 percent of the federal army deserted the central government. Some of the most powerful military *caudillos* . . . joined the revolt." Therefore, by successfully crushing the revolt with support from the regional radicals, the federal government also "decreased the power and independence of the Federal army and increased the power of the center in many states" (Benjamin, 1990, pp. 79–80).

As a result of these eight years' centralization process, the federal government's political control over the state governments indeed increased, but the effect was only marginal. Regional *caudillos* would still engage in revolts, although none of these revolts succeeded in overthrowing the federal government. By 1928 the ruling party had not yet been established and there was not a clear institution that controlled the personnel of the state governors or unified the mindsets of the governors in the form of an ideology. Instead, "the state

organization continued to be dominated domestically by a fragile, personalistic alliance of regionally based military and civilian bosses” (Benjamin, 1990, p. 82).

The Institutionalization Phase (1928–1946): Prior to 1928, the political organizations, including political parties, associations, and labor unions, centered around the revolutionary chiefs and their allies. The political parties were often regionally based, some of which served as political machines for the *caudillos*. As a result, they often lacked a political ideology or a solid organization (Garrido, 1982, p. 63; Middlebrook, 1995, p. 26). But the assassination of Obregón in 1928 (after he was reelected to be the next president) by a religious fanatic, served as an opportunity for Calles to establish the official party, the PNR, in 1929, marking the beginning of an institutionalization process of the revolution.

Since 1929, the official party evolved gradually and played a pivotal role in stabilizing the political system and centralizing political power. Initially during the period of the *Maximato* (1928–1934) when Calles was the de facto maximum leader despite not holding the presidency, the official party (PNR) was structured loosely as “a coalition of semi-independent local organizations dominated by individual military or civilian bosses” (Scott, 1959, p. 116). This was because at the time the regional bosses were relatively strong, Calles was unable to impose a centralized structure. Instead, he had to negotiate with the *caudillos* to build the party. Consequently, the local organizations of the regional *caudillos* were included in the coalition without losing their organizational identity. But over time, because the PNR could mobilize more resources—for instance, it took the advantage of having the access to the government expenditures—the PNR grew and served to undermine “the heads of local political machines and the leadership of functional interest organizations” (Scott, 1959, pp. 122–124). In 1932, the PNR was restructured to abolish “the confederation of regional and local parties” and establish “a hierarchy of municipal, state, and national conventions which were to decide policy and select candidates” (Scott, 1959, p. 124). Moreover, “in 1933, federal deputies from the PNR passed a constitutional prohibition against consecutive reelection . . . for *all* posts,” which strengthened the national leadership’s influence at the expense of the governors, because local politicians now could not just rely on governors for their future jobs, but also needed to appeal to the national leaders (Langston, 2017, p. 35).

After the *Maximato*, the most socially revolutionary president, Cárdenas, took power in

1934. During his six-year term, he furthered the institutionalization process. To reduce the political influence of Calles, in the first two years of his presidency, Cárdenas “realigned the principal functional power groups participating in national politics and particularly in the PNR” (Scott, 1959, p. 127). Because during his presidency and the *Maximato*, Calles had turned more conservative and lost touch with the interests of labor and agrarians, Cárdenas could build his political support by organizing the labor and agrarian interests. Specifically, Cárdenas relied on the union leader Vicente Lombardo Toledano to establish a new agency, the Confederation of Mexican Workers (*Confederación de Trabajadores de México*, CTM). In addition, Cárdenas also built political support through establishing Peasant Leagues in each state, which were later united in the National Farmers’ Conferation (*Confederación Nacional Campesina*, CNC) in 1938. By early 1936, Cárdenas had successfully strengthened his own power through organizing the interest groups and making their leaders personally loyal to him (Scott, 1959, pp. 128–129).

In 1936, with the newly garnered political support, Cárdenas successfully exiled the former chief, Calles. What followed was a restructuring of the official party that continued the political centralization trend. In 1938, Cárdenas dissolved the PNR and replaced it with a new revolutionary party, the PRM. The new party established a corporatist structure to replace the territorially based structure of the PNR: previously the PNR’s national convention corresponded to the state conventions and its national directorate was selected by the state directorates; after the transformation, the PRM’s national assembly corresponded to the four corporatist sectors, namely the peasant, worker, military and popular ones (Díaz-Cayeros, 2006, p. 86).

More relevant for the political centralization was that the PRM changed the state elections’ candidate selection process, which gave more authority to the national-level organizations. Previously, popular primaries were used to elect candidates during the state elections, and local political forces exerted more influence over the candidates. Now with the new PRM, the authority was shifted to the sector organizations, which determined the number of candidates for each sector, and each sector’s leadership nominated candidates for the offices allocated to this sector. The military sector was an exception, because it did not nominate or participate in subnational elections (Scott, 1959, p. 131).

The restructuring of the official party had a centralizing effect. The revolutionary party now dominated the most active interest groups through their national-level sector organizations. The fact that the PRM now had the formal selection powers weakened the state political bosses, who previously selected all the candidates personally. Moreover, the PRM also collected dues and contributions which previously went to the political machines of the political bosses, thus weakening such political machines. Such a weakening effect on local political machines was particularly strong when the state political bosses were less powerful; while the powerful bosses remained unchallenged ([Anderson, 1971](#), p. 74). Cárdenas's restructuring of the official party into the corporatist structure proved to be a critical milestone in the party's history. This corporatist structure played a central role in achieving the electoral successes for the PRM and later the PRI and sustaining its hegemonic position for the following decades.

However, even after Cárdenas's restructuring, compared to the Chinese political system under the CPC, the Mexican system under the PRM was still much more politically decentralized. As discussed in Chapter 4, in the Chinese system, the CPC's central leaders in Beijing had the indisputable authority to impose and remove the provincial governors and party secretaries. In comparison, after Cárdenas's transformation, the PRM's national leaders still had to respect the political forces in the states when selecting the PRM's candidates for governorship. According to [Anderson \(1971, p. 71\)](#),

[t]he President of Mexico, in many cases, made the final selection but only after consulting his advisers, the incumbent governor, military zone commanders, and major interest group leaders . . . If a regional boss dominates the state, the President usually lets him select the candidate. Once the President or regional boss, as the case may be, has approved the precandidate, the Party leaders, the incumbent governor, the Secretary of Gobernación [Secretary of the Interior], the military zone commander, and the sector leaders are notified. Then the sectors meet individually to select the precandidate formally, and in turn, the Party officially ratifies the decision, and preparations are made for the gubernatorial election.

During President Ávila Camacho's term (1940–1946), he abolished the official party's military sector, shifted its members to the popular sector, and in 1946 renamed the party as PRI. It became imperative for Ávila Camacho to reform the PRM, as the party began to lose its prestige as a representative organization for the labor and peasants' interests. Its non-

democratic activities in the elections in the 1940s, such as the 1940 presidential election and 1945 imposition of municipal governments led to its delegitimization and caused widespread protests. Moreover, the public also became more politically aware in the 1940s as a result of the World War II. The PRM with the old functional organizations could not represent the growing number of Mexicans outside of the established sector organizations ([Benjamin, 1985](#), pp. 211–212; [Scott, 1959](#), pp. 139–140). Therefore, when Ávila Camacho became president in 1940, he distanced himself from both Cardenismo and the PRM. He “eliminated the military sector, suppressed the party’s newspaper, brought conservatives to power in the labor sector, integrated the ‘popular’ sector into the party (which further reduced the influence of the labor and campesino sectors), and reduced the PRM to being simply the electoral apparatus of the state” ([Benjamin, 1985](#), p. 212).

With regard to the political centralization process, during his *sexenio*, Ávila Camacho continued weakening the state machines, but again he was not able to eliminate all. “The opposition to PRM candidates, either in the form of national minority parties or state machines, continued to play a role in at least twelve states” ([Anderson, 1971](#), p. 76). Particularly, certain gubernatorial elections show that the outgoing governors as well as different factions within the PRM could constitute political challenges to the official PRM candidates. The conflicts in some of these cases, such as the 1941 gubernatorial election in Coahuila, were so severe that they led to political violence and the involvement of the federal troops.³ Although the end results for these elections were that the PRM candidates, with the support of the federal government, won the elections without exceptions, these political struggles showed the lack of control of the federal government and the official party over the state political forces. Such evidence confirmed that despite the political centralization process after the Mexican revolution, by 1946, namely three decades after the Mexican revolution, the regional political forces were still much stronger in Mexico than their counterparts in China in the 1950s.

As a president with “a very strong personality,” Miguel Alemán (1946–1952) adopted a more authoritarian approach when selecting his governors. According to [Brandenburg](#)

³For instance, [Anderson \(1971\)](#) discussed in detail how during Ávila Camacho’s administration, the PRM’s official candidate faced challenges from state political forces in gubernatorial elections in Guerrero, Coahuila, Morelos, Nuevo León, and Guanajuato (pp. 79–85).

(1964), President Alemán seldom consulted anyone on gubernatorial nominations. For instance, his “placing Sánchez Colín in the state of México governorship . . . constituted an outright refutation of CTM leadership. Alemán ran counter to intense local antipathy toward Dr. Ignacio Morones Prieto by making this nonresident of Nuevo León governor of that important northern entity” (Brandenburg, 1964, p. 151). But such measures were more of an exception than the norm in the 1940s and 1950s. As Brandenburg (1964) adds, when President Alemán’s successor, President Adolfo Ruiz Cortines, came to power, he “reduced the tension there [in Nuevo León] by bringing Morones Prieto into his own national cabinet” (p. 151).

Scholars who study Mexico in this period often conclude that by the 1950s Mexico had already established a relatively centralized political system, as the nominations of governors had to be agreed by the Presidents (the Revolutionary Family head) (Brandenburg, 1964, p. 151; Langston, 2017, p. 30). But if we compare the Mexican case with the Chinese case, we can tell that the Mexican case was still far less centralized politically even by the 1950s. For instance, in the case of President Alemán, even placing unpopular governors was unsustainable, as his successor would remove these governors from offices, it is hard to imagine the Mexican federal government could wage a nationwide purge against local leaders for not pursuing the national economic agenda faithfully without triggering political instability. Such purges were, however, what happened in China in the 1950s.

In summary, this section explains that the Mexican political regime established after its revolution was much more decentralized than the Chinese political regime under the CPC. Compared to the Chinese case, one main reason for Mexico’s high level of political decentralization was its lack of a centralized political party that won the revolution. The regional revolutions ended with the Constitutionalist faction defeating the Villistas and Zapatistas and taking the national political stage, while the regions were dominated by strongmen who rose to political leadership positions through participating in the revolutionary conflicts. This aspect of the Mexican revolution left a decentralized political legacy where the system was unable to move too far away from. Although the following administrations under Presidents Carranza, Obregón, Calles, Cárdenas, and Ávila Camacho strived to centralize the political authority through various tactics, and although the system indeed went through a

political centralization process, the situation by 1946 was still that the national leader had to respect the state political forces and state interests when they decided whom to nominate as an official PRI candidate for the governorship. This political system was in a stark contrast to the Chinese system after its revolution, where the national leaders of the CPC quickly established an indisputable authority over the appointment and removal of provincial governors and party secretaries. Unlike the CPC, the PRI was not a disciplined or ideological revolutionary party that won the revolutionary wars. Instead, when Calles first established the PNR, it was a product of the revolutionary elites to internalize the conflicts among the *caudillos*, who also represented the heterogeneous territorial interests. Later, Cárdenas transformed the party into a corporatist party and centralized the decision-making authority, but the PRM and later the PRI still lacked the discipline and ideological unity that was the essential feature of the CPC. Indeed, the PRM and later the PRI contributed to the political centralization process, but given its own relatively loose structure, it was deemed unable to lead to a centralized political system in Mexico. Thus, by tracing the Mexican regime establishment process, this section establishes that the postrevolutionary regime in Mexico was politically decentralized.

5.4.2 SNG: Low Deviation Thresholds

The high level of political decentralization is expected to result in low deviation thresholds for the subnational governments, by affecting the policy preference divergence between the two levels of governments and also the career incentives of the subnational officials. These factors are presented as the second links in Figure 5.1, which are discussed in the following two subsections.

I focus only on the differences in the economic policy preferences between the federal and state governments, because the theoretical model is mainly concerned with *economic* (de)centralization policies.⁴

⁴It is probably that political centralization levels can affect other policy areas as well and I conjecture that the delegation process in those policy areas share a similar logic as in the economic sphere. But to discuss those policy areas is beyond this dissertation's scope.

5.4.2.1 SNG: Independent Policy Preferences There are three political institutional reasons that contributed to the policy preference divergence between the federal and state governments in Mexico.

Firstly, as discussed in Section 5.4.1, the political system from 1917 to 1946 was highly decentralized. This high level of political decentralization means that the federal government was more constrained when appointing or removing state governors. They had to respect state political forces and interests, especially for those states where regional powers were strong. Thus, unlike the Chinese system where the central leaders could shape the provincial leaders' economic policy preferences by appointing the loyalists and removing the independent-minded ones, the Mexican state governors could remain in office with their relatively independent economic policy preferences.

Secondly, compared to the Chinese case, the official party in Mexico lacked a clear economic ideology. This resulted in a lack of consistency in the economic policies of the federal governments over time. Each new president came to power with his own economic policy agenda.

Thirdly, the staggered timing of the elections of the presidents and governors and their fixed term limits meant that the presidents could not influence the personnel of most states' governors for the first few years of their administrations. The original 1917 constitution stipulated that the term limits for both the president and the state governors to be four years. But the 1928 constitutional amendment extended the presidential term limit from four to six years, making Cárdenas who was elected in 1934 the first president to enjoy the six-year term. Only more than a decade later, in 1943, did the constitutional amendment extend the governors' term limit from four to six years. Moreover, states gradually adopted the six-year term limit and only in 1948 did all states had six-year term limit.⁵ As a result, the dates of the gubernatorial elections and inaugurations also varied across states. A typical Mexican president after 1943 could only nominate a majority of the governors until the fourth

⁵According to Anderson (1971, p. 67), “[b]y 1943, seven states, Campeche, Colima, Guanajuato, Nuevo Leon, Queretaro, San Luis Potosí, and Sonora, permitted six year terms; the following year, seven additional states, Aguascalientes, Chihuahua, Durango, Michoacán, Oaxaca, Veracruz, and Zacatecas, adopted the six year term. In 1945, eight more states, Coahuila, Guerrero, Hidalgo, Mexico, Puebla, Sinaloa, Tamaulipas, and Tlaxcala, switched to six year terms. Three states, Morelos, Nayarit, and Yucatan, continued the trend in 1946. Jalisco and Tabasco adopted the idea in 1947 and finally, in 1948, Chiapas became the last state to change to the six year term.”

year of his government (Díaz-Cayeros, 2006, p. 89).

The second and third reasons together mean that even after the Mexican regime became more centralized politically in the 1940s and when the presidents could play a stronger role in selecting the state governors, for the early years during their presidencies, they had to govern with governors selected by the previous presidents.

Thus, before the 1940s, the political centralization was not high enough and the presidents were constrained by strong regional powers when choosing the state governors; while after the 1940s, when the political centralization increased, as the state political machines were weakened by the PRM and later the PRI, the presidents were still unable to control all the state governors when they first took power, as a result of the staggered timing of the gubernatorial elections.

These three political institutional conditions together caused that the state governors often had their independent economic policy preferences, different from the federal government's.

Díaz-Cayeros's finding based on his study of the state representatives' voting patterns in the First and Second National Tax Conventions in 1925 and 1933 confirms the policy preference divergence between the federal and state governments in terms of the fiscal policies before the 1940s.

The First National Tax Convention (1925) was a fiscal centralization effort. In particular, it was held to "eliminate the multiplicity of . . . the 'anti-economic' (i.e., inefficient) taxes levied by state governments, and sought to substitute them with general income and sales taxes exclusively in the federal jurisdiction" (Díaz-Cayeros, 2006, pp. 47–48). Based on the 10 recorded roll call votes during this convention, Díaz-Cayeros finds that states can be classified into three categories: the unconditional block, the pivotal block, and the adamant block. Among these three blocks, the unconditional block (6 states) always voted with the federal delegation that aimed to implement the fiscal centralization reforms; the pivotal block (11 states) stood in the middle and voted with the federal delegation sometimes but not always; finally, the adamant block (8 states) usually voted against the federal government. Díaz-Cayeros conducted a statistical analysis, which shows that the state delegates' voting was not random. Instead, it reflected certain state characteristics. For instance, large states

and more developed states were more likely to vote against the federal government (2006, pp. 49–64).

The First National Tax Convention concluded with a proposal for the constitutional reform to establish a revenue-sharing system, so that “each level of government would have exclusive jurisdiction over some taxes, and states would receive revenue shares from federal taxes” (Díaz-Cayeros, 2006, pp. 63–64). This proposal, however, was not approved by the Congress. As a result, the federal government adopted a different strategy: it exempted those states that adopted the recommendations of the First National Tax Convention from paying the federal contribution (*contribución federal*), a fiscal transfer from the state governments to the federal government. This selective granting of exemption created a sense of inequality among the states and led to the Second National Tax Convention in 1933, which mainly aimed at eliminating the unequal treatment of the states (Díaz-Cayeros, 2006, p. 66).

Similar to the First Convention, Díaz-Cayeros’s analysis of state delegates’ 28 roll call votes reveals the discrepancy between certain states’ policy preferences and the federal government’s. Such states included “Sonora, Tamaulipas, Tabasco, Yucatán, the Federal District, Puebla, Chiapas, and Nuevo León” (Díaz-Cayeros, 2006, p. 67). Moreover, different from the First Convention, Díaz-Cayeros also finds that the issues in the Second Convention were multi-dimensional, meaning that states did not form stable coalitions and instead shifted their alliances based on different issues (2006, pp. 68–71).

Because the Third National Tax Convention (1947) did not take roll calls, there was no comparable evidence between the Third Convention and the previous two conventions. However, there was still anecdotal evidence illustrating such a policy preference divergence.

For instance, the relationship between President Miguel Alemán (1946–1952) and Governor Baltasar Leyva Mancilla of Guerrero (1945–1951) shows how the staggered timing of the presidential and gubernatorial elections created the policy preference divergence between the two levels of government. In 1944, General Leyva Mancilla was picked by President Ávila Camacho to run for the gubernatorial election in Guerrero. Despite having a strong and popular opponent (Senator Nabor Ojeda) and his reluctance to run, with President Ávila Camacho’s support, Leyva Mancilla won the 1944 PRM primary and the 1945 gubernatorial election. However, the supportive President Ávila Camacho left office in 1946 and Miguel

Alemán became the new president. Instead of an Alemanista, Governor Leyva Mancilla had close ties with President Alemán's national opponents ([Gillingham, 2009](#), p. 182). Unlike the Chinese provincial leaders, who in similar situations would have been removed and replaced, Governor Leyva Mancilla stayed in office and finished his full term. For the rest five years when he governed Guerrero, the state witnessed elite conflicts and peasant mobilization against the governor. It caused the federal government to commission a statewide investigation in 1948 and made the press believe that the governor would be removed. However, partly as a result of the presidential weakness in late 1948 and early 1949 and partly because the governor took a compromising stance when dealing with the federal government, Leyva Mancilla was successfully rehabilitated. Not only did he himself finish his full term, he also left a personal legacy in the state. His former private secretary, Alejandro Gómez Maganda, became the next governor. In the 1960s, he continued his political career, as the leader of the state PRI and later a Senator to represent Guerrero. A key member of his clique, Caritino Maldonado, became the governor of Guerrero in 1969 ([Gillingham, 2009](#), pp. 188–189). This example shows as a result of the staggered timing of the elections, the president occasionally needed to tolerate governors who were not his loyalists.

Systematically, [Díaz-Cayeros](#) coded the ideological positions of the presidents and the 485 governors for the period from 1936 to 1994 and found that indeed the governors nominated “did not simply reflect presidential ideal policy positions” (2006, p. 113). The time period relevant for this chapter, namely from 1936 to 1948, covers presidents Cárdenas, Ávila Camacho, and Alemán. According to [Díaz-Cayeros](#)'s coding, the leftist president, Cárdenas (1934–1940), nominated 30.88% leftist governors, 48.53% centrist governors, and 20.59% rightist governors. Compared to Cárdenas, the rightist president, Ávila Camacho (1940–1946), nominated fewer governors who shared his ideological position than those who were opposite to his position. Among the governors nominated by Ávila Camacho, only 25.58% were rightist governors while 27.91% were leftist governors. He nominated similar percentage of centrist governors as Cárdenas (46.51%). The strong rightist president, Alemán (1946–1952), nominated more governors who shared his rightist positions (46.51%) than his two predecessors and much fewer governors who were leftists (13.95%). The percentage of centrist governors nominated was a little lower than his predecessors (39.53%) ([Díaz-Cayeros](#),

2006, p. 118).

In sum, this section (5.4.2.1) shows that Mexico's decentralized political system made the federal government unable to completely control the personnel of the state governors and thus contributed to the latter's relatively independent economic policy preferences. Such independent economic policy preferences manifested themselves in the state delegates' voting records in the First and Second National Tax Conventions, as well as the ideological gaps between the presidents and the state governors they nominated. Without strong reward-punishment mechanism, the relatively high policy preference divergence between the two levels of government would easily translate into a low policy deviation threshold and cause state governments to deviate from the federal government's policy agenda. I turn to the reward-punishment mechanism in Section 5.4.2.2.

Before discussing the reward-punishment mechanism, it is helpful to clarify my argument and its differences from Díaz-Cayeros's findings.

This section builds on the great work done by Díaz-Cayeros, but I use his evidence to make a different argument. Based on the coexistence of the political centralization trend and the fiscal centralization trend in the postrevolutionary Mexico, Díaz-Cayeros argues that a higher level of political centralization in the 1940s made fiscal centralization possible. Specifically, he contended that through political centralization, by the 1940s, the federal government could make a credible commitment to the state leaders (which had not been possible in the 1920s): the states could trust the federal government's promise of delivering the fiscal transfers, and the state officials themselves could benefit electorally by supporting the federal government.

On the one hand, I agree with his argument that political centralization increased the federal government's *capacity* to centralize the fiscal resources and authority. On the other hand, this dissertation tackles a different problem: why did the federal government *want to* centralize the fiscal authority? Again, my answer is that the federal government wanted to centralize the fiscal authority because the political decentralization levels were high throughout the period from the 1920s to the 1940s.

Two distinctions are helpful to clarify the differences between Díaz-Cayeros's argument and mine. Firstly, the federal government's *capacity* to centralize fiscal authority is different

from its *incentives*. The outcome of interest for Díaz-Cayeros is the federal government's *capacity*, while the outcome of interest for this dissertation is the *incentives*. Secondly, the political centralization *process* is different from the political centralization *level*. They are related but different. I agree that the political centralization *process* made the political system more centralized in the 1940s than in the 1920s, but I argue that because the political centralization level was so low in the 1920s, the political centralization efforts in these three decades did not make the system obtain a high *level* of political centralization. Especially when we compare the 1940s Mexico with the 1950s China, Mexico's federal government was much less able to control the personnel of the state governors. I argue that this high *level* of political decentralization can explain the federal government's *incentives* to pursue fiscal centralization policies.

5.4.2.2 SNG: Low Career Incentives Not only did the decentralized political system help sustain the policy preference divergence between the federal and state governments, it also could not provide the career incentives for the state officials to pursue the federal government's economic policy agenda.

Compared to the Chinese system, two aspects of the Mexican system contributed to its lack of top-down reward-punishment mechanisms. Firstly, the ruling party CPC in China had supreme authority and penetrated all government institutions; while in Mexico, the PRI did not have such an extensive presence and influence in the state institutions, which means that the government institutions reserved certain autonomy from the PRI. Secondly, the CPC itself had a centralized party organization as a result of the civil war; while the PRI, on the other hand, evolved from a territorially-based coalition of local organizations (PNR) to a corporatist structure that incorporated the interest groups and aimed at mobilizing the citizens to win elections (PRM and PRI).

Because of these institutional differences, in China, the CPC party leaders in Beijing were able to discipline the provincial government leaders through the CPC organization. When the independent-minded provincial leaders deviated from the national government's economic policy agenda, they were ruthlessly purged. Such purging processes created powerful career incentives for the provincial leaders to implement the national government's economic policy

directives, even when such policies may lead to disasters in their localities. In comparison, the presidents in Mexico, who were also party leaders of the PRI, did not have the tools that their Chinese counterparts had to discipline the state governors. This led to the relatively lack of career incentives among the governors.

In the 1920s, before the official party was established, presidents had weaker control over the state governors' personnel. The state governors sometimes held very different policy preferences which could cause the presidents considerable frustrations. But even when the presidents were frustrated, they could only remove those state governors who were politically vulnerable. For instance, when Calles took power, he was determined to remove dissident regional leaders, and his government was responsible for ousting over 25 governors in 15 different states. However, strong *caudillos*, such as Emilio Portes Gil in Tamaulipas and Saturnino Cedillo in San Luís Potosí could still remain in power, despite their progressive policy agenda that was much more radical than Calles's own preferences ([Benjamin, 1990](#), p. 80). Compared to the Chinese provincial leaders in the 1950s, the Mexican state governors in the 1920s were much less fearful of the national government.

Over time, as the political system became institutionalized, the presidents as the leaders of both the official party and the federal government gained more authority in nominating and removing the state governors. However, their institutional tools to remove the governors were quite different from the Chinese case. In China, the CPC's centralized structure made it possible for the central leaders to carry out political campaigns and remove provincial leaders with unquestionable top-down party decisions. In contrast, the decision-making authority to remove a state governor in Mexico was more dispersed, the presidents' discretion was more limited, and the standards to be met in order to remove a governor were higher.

Particularly, there were four ways in which a governor could be forced out of the office: (1) to be impeached by the state legislature; (2) to be impeached by the Federal Senate; (3) the federal government could force the governor to resign, which was to ask for a permanent leave of absence in front of the state legislature; and finally, (4) the Federal Senate or the Permanent Commission of the Senate when the Senate was not in session, could declare powers void in a state and remove its governor, and appoint a provisional one or call a special election to elect a new one ([Anderson, 1971](#), pp. 320–321).

Among them, the federal government often used the third and fourth procedures. Between the third and fourth, as the political system became more institutionalized and centralized, the federal government also used the third procedure, namely forcing a governor to resign, more often than the fourth. According to [Anderson](#), many of the forced resignation cases were

face-saving devices for individuals threatened with removal. If the President, the state political leaders, and the Secretary of Gobernación [Secretary of the Interior], build a successful case against the governor, he is informed, and quietly urged to go before his state legislature and ask for an unlimited leave of absence. Only if he refuses—will actual removal proceedings be started in the Senate ([Anderson, 1971](#), p. 322).

Moreover, the less frequent removals (the fourth procedure above) no longer aimed to oust the rebellious state governors, but oftentimes to “throw a political supporter to the wolves in order to placate public outrage” ([Scott, 1959](#), pp. 137–138).

Thus, compared to the Chinese case, the Mexican federal government’s tools to remove the subnational officials or force them to resign were more limited. Specifically, while the Chinese central leadership only needed to rely on the CPC organization to remove the provincial leaders; the Mexican federal leaders had to rely on political players in other government institutions, such as the Senate and the Secretary of the Interior (head of the Secretariat of the Interior [*Secretaría de Gobernación*]). Thus, the political authority involved in the removal or forced resignation procedures was more dispersed. If the CPC had not had a tight organization, such a contrast between China and Mexico would not have been so stark. But given that the CPC had a highly disciplined and centralized organization, the difference between China and Mexico was substantial. For instance, the anti-localism campaign that swept the Chinese provinces in the 1950s would not have been possible in the Mexican context.

As a result, state governors were seldom punished for implementing different economic policies. The major reasons why the Mexican governors were forced out of offices in the 1940s include that they were unpopular in their states, or being corrupt and incompetent. The federal government also had a tendency to remove the brutally repressive governors, because they encouraged popular discontent that created unrest, embarrassed the national administration and the PRI, and could potentially destabilize the regime ([Anderson, 1971](#),

p. 317).

This section (5.4.2.2) demonstrates the second direct consequence of having a decentralized political system: the state governors in Mexico did not have strong career incentives to implement the national government's economic policy agenda. Particularly, when compared with the Chinese case, the Mexican federal government did not have the disciplinary tools that the centralized CPC organization offered. Instead, the Mexican federal government needed to take into account other important political players' opinions when making the personnel decisions. With regards to forcing out a governor, the presidents needed to cooperate with the Senate and the Secretary of the Interior. As a result, the governors who were removed or forced to resign tended to be the politically vulnerable ones, who were unpopular in their states. For the strong and popular governors, the federal government was not able to remove, even if they adopted economic policies different from the federal government's economic policy agenda.

5.4.3 SNG: Policy Deviations

So far, the evidence shows that the decentralized political system in Mexico led to both a high level of policy preference divergence between the federal and state governments and that the state governors did not have strong career incentives to implement the federal economic policy agenda. These two conditions combined meant a low deviation threshold for the subnational governments. The theoretical model predicts that when the subnational governments' deviation thresholds are low, they are more likely to engage in policy deviations. Specifically, the Mexican state governors would pursue economic policies that were different from the federal government's economic policy agenda even when the economic decentralization level was not very high. In the following, I show the examples of how the Mexican governors often deviated from the federal government's economic policies, including two governors to illustrate the interaction between state and federal governments in the 1920s (Section 5.4.3.1) and 1930s (Section 5.4.3.2) and the state governments' fiscal policy deviations in the 1920s and 1930s (Section 5.4.3.3).

According to the theory, political centralization could rein in the policy deviation be-

haviors, as it decreased the policy preference divergence and increased the career incentives. Thus, it is expected that as the political system became more centralized from the 1920s to the 1940s, the deviation thresholds increased over the years. The different styles of how Governor Zuno and Governor Maximino interacted with the federal government support this theoretical expectation.

5.4.3.1 1920s: Governor Zuno of Jalisco During the 1920s, one illustrative example of the governors who deviated from the federal government's policy agenda was Governor José Guadalupe Zuno Hernández of Jalisco (1923–1926). His term overlapped with two federal administrations, President Obregón (1920–1924) and President Calles (1924–1928). Governor Zuno was a political ally of President Obregón (1920–1924). With the political support from Obregón, Zuno became the governor of Jalisco. But his close ties with Obregón, his strong preference for state autonomy, and his relatively more radical labor policies made him clash with President Calles. Calles sought to replace Zuno and Zunistas with Callistas. In the end, Zuno opted to resign and obstructed Calles's strategy to impose a Callista governor. After Zuno's resignation, Zunismo revived in the late 1920s and Zunistas remained influential until the *Maximato*.

Unlike many other regional strongmen who rose to power via a military career path, Zuno was a civilian who became a *caudillo* because of his political astuteness. He was born in a rural lower-middle-class family in Jamay, Jalisco in 1891. His family moved to Guadalajara (the capital city of Jalisco) in 1893. He began his career as a cartoonist for the newspapers, including *El Perico* in Guadalajara, *El Constitucionalista* in Mexico City, and *Boletín Militar* in Guadalajara. He also established a painting workshop with other painters, known as the *Centro Bohemio*, which “gathered artists and writers that later would become important political and social leaders.” He met Obregón in Guadalajara in 1914. Since then, they “developed a reciprocal friendship and loyalty that transcended political ties by establishing family bonds through *compadrazgo*.” Their close relationship helped both of them to rise politically. During Obregón's presidential campaign in 1919, Zuno and the *Centro Bohemio* actively supported Obregón in Jalisco by mobilizing the workers, artisans, teachers, women, and peasants. Zuno later won the gubernatorial election in December 1922 and became the

governor in 1923 ([Fernández Aceves, 2009](#), pp. 96–97).

Although Zuno was Obregón's political ally, he did not completely support the federal government's economic policies. Instead, he valued state autonomy and resisted the expansion of the federal government in Jalisco. For instance, he opposed the CROM's initiative to dominate the local labor movement. Instead, Zuno organized and relied on the local labor and peasant organizations, including the League of Agrarian Communities of Jalisco (*Liga de Comunidades Agrarias de Jalisco*) and the Confederation of Libertarian Workers Groups of Jalisco (*Confederación de Agrupaciones Obreras Libertarias de Jalisco*, CAOLJ). The CAOLJ, which was based in Guadalajara, Jalisco, "promoted independent unions, strikes, and struggles against CROM strikebreakers and the authoritarian policies of the federal Ministry of Industry and Labor" ([Fernández Aceves, 2009](#), pp. 98–99).

The conflict between Governor Zuno and the federal government became much more intense after Calles took power. The feud between Calles and Zuno was more than policy differences. Because Zuno had close personal and political ties with Obregón, when Calles split with Obregón, the political strength of Zuno in Jalisco posed threats to Calles government's stability. Although their division was not only caused by their policy preference differences, those differences added the fuel. In particular, Calles sought political centralization during his term and he relied on the CROM and its leader and his ally, Luis Morones, to achieve this goal. On the other hand, Zuno was against the centralization policies from the very beginning. In addition, as the federal government became more socially conservative under President Calles, the Zunistas continued to be a radical political force that fought against labor exploitation in Jalisco. For instance, the "Zunistas and communists united organized labor in Jalisco into the Confederación Obrera de Jalisco" in 1927. In 1925, partly thanks to the advocacy of the women working class, Zuno also sought to meet their needs by establishing "the Casa Amiga de la Obrera (CAO, a day care center and school) . . . to follow up on the postulates of Article 123 of the Constitution and the state labor law of 1923" ([Fernández Aceves, 2009](#), pp. 99–100). Unsurprisingly, during the First National Tax Convention in 1925, Jalisco was one of the states that firmly voted against the federal government that proposed the fiscal centralization reforms ([Díaz-Cayeros, 2006](#), pp. 55–56).

Because political decentralization level was very high in the 1920s, which manifested itself

in the great political influence of Zuno in Jalisco, it was a rather costly process for Calles to replace Zuno and Zunistas with Callistas. According to [Fernández Aceves \(2009\)](#)'s account, Calles first initiated an anti-Zuno campaign with an instigated rural revolt, and he also relied on CROMistas to weaken Zunistas in an election. As a counterattack, Zuno selected his own men as candidates for the state elections and successfully won all the electoral districts. Then, Callistas convinced a Zunista, Alfredo Romo, to break with Zuno. Romo and his followers disowned Zuno as governor and demanded Calles's recognition. On Zuno's part, he dismissed CROMistas from public offices and removed Callista deputies in the state congress. The federal congress later started an investigation of the charges against Zuno, including "dissolution of municipal governments, political assassinations, and not respecting the federal pact." But before the congress judged the case, Zuno resigned voluntarily. Instead of a behavior of showing weakness, it was a strategic move on Zuno's part. Because of his resignation, he was able to "preserve the state's sovereignty and to block Calles's plan to impose a Callista local executive" ([Fernández Aceves, 2009](#), pp. 101–102).

The direct result of this political battle between Calles and Zuno, however, was not the disappearance of Zunistas. As Zuno resigned, the key political positions in Jalisco remained in the hands of Zunistas. Furthermore, Calles's aggressive tactics against Zuno resulted in more political violence on the streets. Instead of disappearing, due to the Cristero War in the late 1920s, "the Jaliscan Obregonismo and Zunismo recovered, radicalizing its labor, agrarian, and church policies." Zunismo later declined, after Zuno left the political scene, his ally Obregón was assassinated, and Calles further consolidated his power during the *Maximato* ([Fernández Aceves, 2009](#), pp. 102–103).

The case of the Jaliscan governor Zuno shows that in the 1920s the high level of political decentralization made it possible for an independent-minded politician to rise and gain political power in a region; build an alliance with the national leader (Obregón), relying on his regional influence; stay in power despite his policy preferences for state autonomy; implement economic policies different from the federal government's policy agenda, especially during the Calles's period; and finally remain influential in the state in spite of Calles's aggressive attacks against him and his own strategic resignation.

5.4.3.2 1930s: Governor Maximino Ávila Camacho of Puebla An example that shows the policy deviation behaviors during the 1930s is Governor Maximino Ávila Camacho of Puebla (1937–1941), who was also the older brother of President Manuel Ávila Camacho. Maximino’s term overlapped with two presidential terms: Cárdenas’s (1934–1940) and his brother Ávila Camacho’s (1940–1946).

Maximino rose to his political position through a military career path. Maximino was born in 1891 to a rancher’s family in Teziutlán, Puebla. He quit school at the age of twelve. He later went to the military academy and began a military career. He became acquainted with certain high-ranking generals, including General Obregón, in the late 1910s. In 1920, Maximino quit the army to join Obregón’s presidential campaign. Then, in the early 1920s, he served as a personal aide to General Lázaro Cárdenas in Michoacán. In the battle against de la Huerta’s rebellion, Maximino and his brother Manuel fought bravely to defend Morelia, the capital of Michoacán. Although they lost the battle, his bravery earned him a promotion to brigadier general. In the mid-1920s, Maximino became the zone commanders in various regions. During the Cristero War, he was sent to Guanajuato and later to Zacatecas, where he was portrayed to be corrupt and cruel: “[w]hile only desultorily pursuing the rebels, . . . Maximino enriched himself by selling government arms to the insurgents, . . . confiscating property from anyone even rumored to be associated with the Cristero rebels, and killing anyone who questioned his actions.” Despite these records, because of his ability to please the federal government leaders with his problematic financial gains, Maximino was promoted to be brigade general in 1929 ([Henderson and LaFrance, 2009](#), pp. 157–160).

In 1934, when Cárdenas became the president, he made Maximino the zone commander of Puebla. With an ambition to become the governor of Puebla, Maximino expanded the military zone to cover the entire state in 1935. In addition, he began to build ties with local politicians and also maintained a close relationship with President Cárdenas. In the PNR primary, Maximino faced a former state and federal deputy, Gilberto Bosques. Bosques was a leftist populist and had the backing of the workers and peasants. On the other hand, Maximino had support from the army, the state party, the outgoing governor, and the leaders at the federal level. Moreover, Maximino had a conservative tendency that drew the support from the middle and upper classes. With such political support and the use of electoral

fraud and violence, Maximino won the PNR primary. Although Cárdenas shared similar leftist policy preferences with Bosques, when Bosques's supporters traveled to Mexico City to protest, Cárdenas ignored their demands ([Henderson and LaFrance, 2009](#), pp. 161–162).

Unlike the conservative Maximino, President Cárdenas was the most socially revolutionary president in the postrevolutionary Mexico. Although historians debate over his legacy ([Bantjes, 1998](#), pp. xii–xiii), it is a consensus that he was a left-leaning president and supported redistributive economic policies ([Krauze, 1997](#), pp. 438–480). At the same time, scholars also agree that Cárdenas was not a radical ideologue.

In his early career as a general, Cárdenas was inspired by his radical friend General Francisco J. Múgica, who was the governor of Michoacán in 1920. Múgica introduced Cárdenas to the idea that socialism could solve the conflicts of Mexico. Later, when Cárdenas became the governor of Michoacán, he promoted socialist ideas in schools and distributed land to peasants in the form of *ejidos* ([Krauze, 1997](#), pp. 443–451). The *ejido* is an institution that has its origins in the traditional indigenous system, which combines communal ownership and individual use. It was abolished during the Liberal Reform in 1855, causing the indigenous population to lose their land. As a result of the peasants' mobilization during the revolution, the 1917 constitution reintroduced this collective ownership to alleviate the agrarian problems ([Britannica Academic, N.d.](#)). Cárdenas was a strong supporter of the *ejido* system.

As Cárdenas became the president, he shifted the government's emphasis from Calles's anticlericalism to the social reforms on the issues of land and labor. Cárdenas again promoted socialist ideas through general education and distributed land to peasants by granting the *ejidos*. As a pragmatic leftist, Cárdenas viewed the *ejidos* as an institution that could solve multiple problems at once. Firstly, it could liberate the peasants from their previous exploitation and serve the purpose of social justice. Secondly, Cárdenas also believed the *ejido* to be an institution that could bring economic improvement. Finally, it could help Cárdenas to destroy the *hacienda* (large estates) and the political power of the *hacendados* (the owners of the large estates) ([Krauze, 1997](#), p. 461).

Cárdenas's labor policies were corporatist in nature. He was not a Communist. In addition to social justice, Cárdenas also valued industrialization and economic development.

To solve the conflicts between labor and the industrialists, he positioned the government as the arbitrator and regulator ([Krauze, 1997](#), p. 469). His government encouraged both the industries and workers to compromise for the greater good for the nation. Moreover, his government also disagreed with the labor organizations sometimes. For instance, he opposed the CTM's expansive strategy to recruit the peasants. Instead, he supported the creation of the CNC to organize the agrarian forces. Neither did his government always side with labor in the industrial disputes. But compared with his predecessors and successors, Cárdenas indeed valued social justice and challenged the business interests, especially in the early years of his administration before 1938 ([Knight, 1994](#), pp. 84–85).

In contrast to Cárdenas, Maximino as a governor was not interested in the revolutionary ideals, such as social justice or economic nationalism. In addition to being a corrupt politician, he also had a conservative tendency and was eager to cooperate with the rich and traditional elites for expanding his own power and wealth.

In terms of labor policies, Maximino sought to weaken the Regional Federation of Workers and Peasants (FROC). The FROC was the radical faction of the CROM, and later split with the CROM and became a CTM affiliate. To decrease the FROC's influence, Maximino replaced its representatives in the government organizations with conservative politicians and made more and more labor actions illegal. He also arrested prominent FROC leaders as a way of intimidation. By 1940, Maximino was able to weaken the FROC to a great extent so that "Puebla's once fractious labor movement could fairly be described as a full-fledged client of the Avilacamachista state apparatus" ([Henderson and LaFrance, 2009](#), pp. 166–167). But given that the federal government under Cárdenas did not ardently pursue radical labor policies, despite their conservative tendency, Maximino's labor policies did not clearly contradict Cárdenas's policy agenda.

With regard to the agrarian policies, Maximino aimed to "transform a chaotic and factionalized peasantry into an obedient clientele." This strategy of Maximino also helped Cárdenas to "unify peasants and workers within organizations that could be incorporated into the machinery of the official party" ([Henderson and LaFrance, 2009](#), p. 167). Meanwhile, Cárdenas's also intentionally relied on Maximino who could control the state to ensure the official party's domination in the region ([Quintana, 2010](#), p. 78). But when political

centralization level was as low as Mexico under Cárdenas, the economic policy preference divergence between President Cárdenas and Governor Maximino had implications. In particular, it created a tradeoff between Cárdenas's two goals: to politically control the state of Puebla versus to pursue his economic agenda of granting *ejidos* as a remedy for the social injustice in Mexico.

A case in point is the granting of *ejidos* in the township of Atencingo in Puebla. Theoretically, with *ejidos* system, the government was supposed to transfer land from a North American businessman William O. Jenkins to the peasants, as a way of realizing the revolutionary promises. However, in practice, because of Maximino's conservative leanings, the granting of *ejidos* in Atencingo not only did not meet the peasants' demands, it preserved Jenkins's original economic operation.

Jenkins was a US-born businessman who came to Mexico in 1901 during the Porfiriato. Before the revolution, Jenkins had established himself in Puebla's textile industry ([Paxman, 2017](#), pp. 66–70). The revolution disrupted the stable *hacienda* system of the Porfiriato and offered Jenkins a new opportunity. During the Porfiriato, the *hacendados* (owners of large estates) controlled the sugar mills in the region and hired *peones* (farm workers) to live and work on the *haciendas* under austere conditions. The violent revolution in the 1910s interrupted this *hacienda* system and drove away the *hacendados*. With his financial resources and political influence, Jenkins took the historic opportunity and began to establish his monopoly over the sugar industry in the region since the early 1920s. But in the meantime, the peasants also increasingly pressured for land reforms, demanding ejidal grants of the *hacienda* lands. By the mid-1930s when Cárdenas became the president, peasants gradually received some ejidal grants. Although in terms of the quantity, a large portion of Jenkins's land (more than 90 percent) was redistributed to the peasants during the 1920s and 1930s; those lands being divested were often unirrigated or in the hills. Jenkins himself still kept the more fertile and productive land ([Ronfeldt, 1973](#), pp. 8–16).

The political climate began to change after Cárdenas became the president. Encouraged by Cárdenas's national land reform program, peasants became more active in petitioning for the better lands. With the support of the newly elected municipal head, Gil Vega, the peasants' petitions drew more state and federal attention. Consistent with his own policy

preferences, in 1937, Cárdenas agreed that the peasant petitioners should receive the lands and ordered the Agrarian Department to redistribute the land (Ronfeldt, 1973, pp. 17–18).

However, in the meantime, supported by donations from Jenkins and other economic elites, Maximino had won the gubernatorial election in 1936. To maintain a good relationship with Maximino, Jenkins also lent loans to Maximino's state government (Paxman, 2017, pp. 214–221). The political, economic, and personal ties between Maximino and Jenkins, buttressed by Maximino's innate conservative ideology, upheld an alliance between the two. Unlike the governors in the 1920s, who would often openly contradict the federal government's policies and created more apparent frictions, Maximino, a strong governor in the 1930s, on the other hand, chose a more tactical approach to deal with the federal government.

In response to Cárdenas's order of partitioning the fertile land, Maximino prepared a report asserting that the *peones* and workers, instead of the villagers, should have first claim to the land. The justification Maximino's report provided was that the *peones* had no land at all and were already working on the land in question, while the villagers had obtained their *ejidos* and only requested enlargements. This idea of granting *ejidos* to the *peones* instead of villagers was to Jenkins's advantage, because the villagers were more mobilized and independent from Jenkins's enterprise, while the *peones* were more docile and subject to Jenkins's influence. Swayed by Maximino's report, Cárdenas suspended the initial order. In the meantime, Jenkins recruited an important labor leader, Blas Chumacero, and organized his *peones* into the Atencingo Workers and Peasants' Syndicate. In August 1937, to convince Cárdenas, accompanied by a commission of the *peones* and workers, Maximino and some agrarian officials traveled to Veracruz and met with the president. Jenkins also offered to hand over the lands as a gift. As a result of these political efforts, Cárdenas decided to completely stop the initial order of granting the *ejidos* to the villagers (Ronfeldt, 1973, pp. 18–19).

On March 30, 1938, based on the recommendations of Maximino, Cárdenas signed a presidential decree. The decree

formed a single giant *ejido* from the widely dispersed lands of the nine haciendas. . . . Sugar cane and rice were the only crops permitted by law. And only the former peons and workers of the haciendas were supposed to qualify as ejidatarios. . . . While only

ejidatarios were supposed to be admitted as associate members, the manager of the mill, Pérez, was extended considerable power over its operation (Ronfeldt, 1973, pp. 28–29).

Hence, with the help from Maximino, Jenkins preserved his effective control of the sugar mill, avoided transferring his land to the independent villagers, and ensured the continuation of his previous economic operations.

We can draw two implications from the Atencingo case. First of all, compared to the Chinese provincial leaders, Maximino did not have the strong career incentives and had an opposite economic policy preference to Cárdenas's preference. These two factors explained Maximino's economic policy deviations. Cárdenas's original motivation of enthusiastically advocating the *ejido* system was to bring social justice to the peasants, as promised by the revolution. In addition, Cárdenas also had an incentive to weaken the large landowners, such as Jenkins. However, in practice, the conservative governor Maximino not only was not eager to satisfy peasants' demands, he collaborated with Jenkins, the peasants' opponent and a foreign-born capitalist. By providing incomplete, and sometimes biased information to Cárdenas, Maximino successfully convinced Cárdenas of Jenkins's preferred solution, namely allowing Jenkins to continue his business more or less as usual.

At the same time, the case of Atencingo also shows the impact of higher political centralization level on governors' behaviors. In particular, there were not direct confrontations between Governor Maximino and President Cárdenas. Maximino did not openly ignore the federal government's authority. Instead, by providing incomplete and sometimes biased information, Maximino deftly convinced Cárdenas to first suspend and later completely abandon the original plan of expropriating all Jenkins's properties and allotting the lands to the villagers. Maximino's less confrontational approach, in comparison to the relationship between Governor Zuno and President Calles, was also consistent with our expectation that as the Mexican political system became more centralized, governors would become less likely to defy the federal government.

In addition to Atencingo, Maximino also used land distribution to expand his influence in other regions. He would decide whether to distribute lands to towns based on the support he could get from such towns. In one case, Maximino scolded a mayor for ordering land distribution to local *ejidos* based on federal directives but without his approval. He ordered

the suspension of this land distribution (Quintana, 2010, p. 88).

Besides his agrarian policy deviations, Maximino also sought to build and lead an alliance with other conservative governors, such as the governors of the State of Mexico, Morelos, Hidalgo, Tlaxcala, and Sonora. Together these conservative regional leaders balanced the radical mass organizations and their leaders at the federal level. After Cárdenas expropriated foreign oil companies in 1938, Maximino also exploited the anger of the business interests and pushed Cárdenas to adopt more conservative policies (Henderson and LaFrance, 2009, p. 164).

The example of Governor Maximino illustrates the existence of governors' policy deviation behaviors in the 1930s Mexico. Admittedly, it is less clear how Maximino implemented labor policies differently from Cárdenas's expectations, since Cárdenas was not eagerly promoting labor rights himself. However, provided that Cárdenas was enthusiastic about realizing the revolutionary promise about the land issue, it is more obvious that the conservative governor Maximino had his own agenda, which was to protect the elites' privileges and preserve the previous production mode. He was also capable of achieving his own goals. The Atencingo case reveals how Maximino succeeded in implementing land policies that he preferred. In addition, the political decentralization level was so high that Maximino was able to build a conservative alliance with other governors that could contain the radical forces at the federal level and pressure President Cárdenas to adopt more conservative policies by the late 1930s. In comparison, in the 1950s China, it is almost impossible for governors such as Maximino to survive the series of political campaigns that aimed to unify the mindsets of provincial leaders.

5.4.3.3 State Governments' Fiscal Policy Deviations In this section, I discuss the state governments' fiscal policy deviations, which directly led the federal government to centralize fiscal resources and authority.

The postrevolutionary federal administrations aspired to modernize the country and create a common national market. But the revolution dried up states' treasuries and weakened the political center, creating a fiscal anarchy where the states began to implement fiscal policies that were more expedient for the individual states but lacked coordination among

themselves and obstructed the federal government's agenda of building a national market. The high level of political decentralization allowed the independent-minded governors to stay in power and sustain their policy deviations. Although the federal governments during the three decades preferred to establish a common market nationally, they were not able to constrain the state governments politically or stop their policy deviations. As a result, fiscal centralization became a preferred option for the federal government to establish fiscal order and build the national market.

The creation of a national market is an integral part of a nation-state's modernization process. In Mexico, the idea of forming a unified national market was a crucial component of the liberal dream—building an advanced and civilized nation, where all citizens could freely engage in economic activities. Thus, as the liberals dominated the Mexican political stage in the 19th century, they attempted to eliminate the internal tariffs installed by the state and municipal governments ([Aboites Aguilar, 2003](#), p. 20).

The revolution in the 1910s halted this modernization process as the wars disrupted economic production and the means of transportation. For the postrevolutionary government, a unified national market was not only an ideological desire like the earlier liberals in the 19th century, but also became necessary for Mexico's economic development. The decade-long revolutionary instability left Mexico with a fiscal system that was fragmented. States gained fiscal autonomy at the expense of the federal government's loss of fiscal authority. Concurrent taxation (*concurrentia fiscal*), namely the federal and state governments concurrently levied taxes on the same economic entities, became a widespread phenomenon. Such fiscal fragmentation and anarchy led to highly inefficient tax systems, caused onerous financial burdens on businesses, and impeded the national economic development. The postrevolutionary government's desire to modernize the country made reforming its fiscal system a priority.

Manuel Gómez Morín, who was an influential public official in shaping the postrevolutionary fiscal and monetary policies and presided the First National Tax Convention in 1925, commented during the convention that,

with the current organization, each state is protectionist against the other states and the whole republic. It is impossible to make plans for the national economic development, for the technological exploitation of our natural resources, for issuing loans, for the fluid circula-

tion and fair distribution of goods, while maintaining the preposterous fiscal fragmentation (as quoted in [Aboites Aguilar, 2003](#), p. 107, translated by the author).

Similarly, the Treasurer of the Republic at the time, Alberto J. Pani, also criticized the fiscal anarchy and fragmentation during the First National Tax Convention. He pointed out that by establishing their own tax systems, the states often rivaled with each other and created “true economic wars” (*verdaderas guerras económicas*). In order to preserve the taxes on production within their own states that had been improperly established in the first place, the states further introduced real local importation rights (*verdaderos derechos locales de importación*). The tax system, as a result, became increasingly burdensome, due to the multiplicity of the quotas, fines, and surcharges. In addition to complicating the tax system, fiscal anarchy also incurred heavy costs on the collection, inspection, and administration of the tax revenues. Finally, fiscal anarchy led to unfair taxation, since the federal and state governments often concurrently collected taxes from the same economic entities, but left others untaxed ([Aboites Aguilar, 2003](#), p. 295).

On the states’ side, fiscally the revolutionary wars depleted their coffers. Politically, regional strongmen who were less controlled by the federal government came to dominate the state governments. As a result, although the federal government desired a common national market, the states deviated from the federal government’s policy agenda, erected internal tariffs, and perpetuated the economic fragmentation situation.

One example of state governments’ policy deviations was their reestablishment of the old *alcabalas* after the revolution, although such taxes were banned in the 1917 constitution for functioning as internal tariffs. The *alcabalas* originally was a colonial tax on the movement of goods across the jurisdictions. It was banned in the late 19th century under the Porfirian regime for hindering the formation of a national market. But as the revolutionary wars created an urgent need for the states to raise revenues while at the same time weakened their capacity to do so, they turned to the *alcabalas* once again for it was more expedient to collect the *alcabalas* than the other taxes. Particularly, in the 1920s, the state governments relied on three main sources for tax revenues, which were the property tax, the taxes on industry and trade, and the excise taxes ([Díaz-Cayeros, 2006](#), pp. 46–47). When the federal government eliminated the *alcabalas* during the last years of the Porfiriato, states resorted

to the property tax to compensate for the revenue losses. However, as a major revenue source, the property tax was more difficult to collect, for it required a relatively precise land registry that was often lacking in the states. When the postrevolutionary state governments needed the revenues but were lacking the effective ways to raise them, they reestablished the *alcabalas*. In 1926, almost none of the states had the *alcabalas*; but by 1947, the *alcabalas* existed in all states except Sonora (Díaz-Cayeros, 2006, pp. 44–47; Aboites Aguilar, 2003, pp. 72–76).

Besides the *alcabalas*, states also lacked the enthusiasm for the federal government's initiative to establish a revenue-sharing fiscal system and some states chose to stay out of the fiscal arrangement promoted by the federal government.

Faced with the fiscal fragmentation and disorder, the postrevolutionary federal government engaged in various reform efforts since the 1920s. Its first major attempt was the First National Tax Convention held in 1925. In this convention, the SHCP proposed the following reform measures: (1) to give the federal government an exclusive authority to collect income tax and sales tax; (2) end the state taxes on industry and trade; and (3) compensate the states' revenue losses with unconditional transfers, referred to as the *participaciones*. However, as discussed in 5.4.2.1, a group of states firmly voted against the federal government in this convention, including the State of Mexico, Jalisco, Oaxaca, Veracruz, Puebla, Nuevo León, Querétaro, and Durango (Díaz-Cayeros, 2006, p. 55). The voting pattern at this convention reflected not only the state governments' reluctance to abandon their taxes on industry and trade, but also their ability to oppose the federal government's initiative without fearing the political consequences. States' open resistance against the federal government's proposal in this convention was a consequence of the high level of political decentralization. Such deviation behaviors became more pronounced when compared with the Chinese case in the 1950s, where provincial leaders who voiced their different opinions were ruthlessly purged.

Given the states' fierce opposition against the taxation overhaul in the mid-1920s, the federal government adopted a gradual approach to reform the tax system. Instead of eliminating all state taxes on industry and trade at once, the federal government federalized taxes on one industry at a time. Over the period of two decades from 1928 to 1949, the federal

government expanded its tax authority in water resources, timber, oil and its derivatives, electricity, minerals, tobaccos, and beer, among others (Aboites Aguilar, 2003, Chapter 5). For each industry that the federal government established its own taxes, it tried to remove the states' tax authority and compensate the states' revenue losses by dispensing a share of the federal revenues from such industry (*participaciones*). Since different states were often more invested in different industries, when the federal government focused on expanding its tax authority in one industry, the states that were less active in this industry often lacked the incentives to coordinate with those that had more activities. As a result, this strategy succeeded in gradually expanding the federal tax jurisdictions from the late 1920s to the 1940s.

The urgent need to unify the national market necessitated the federal government to equalize the costs of production among the states as much as possible and required an orderly tax system. The federal government's efforts to expand its tax authority in various large industries and natural resources demonstrate its policy preferences for the common national market as well as policy agenda of establishing the fiscal order. But instead of pursuing the federal government's policy agenda at the expense of the states' interests, as the provincial leaders in China did in the 1950s, several Mexican states chose to voice their discontent and sought to stay out of the federal arrangement.

For instance, in the case of the mining industry, the federal government began to expand its tax authority in 1926 and caused strong dissatisfaction among states that relied on revenues from the mining industry, such as Chihuahua. Chihuahua not only expressed its discontent publicly, but also led the opposition of several other states against the federalization of the mining industry.

In May 1926, President Calles signed the *Law on the Mining Industry* that prohibited states from direct and indirect taxes on this industry and granted the federal government a fiscal monopoly over mining activities. As a state that heavily relied on the taxes from the mining industry, Chihuahua opposed the federal government's initiative.

In the newspaper *Excelsior*, the Chihuahua delegate, Miguel Collado, criticized the federal government's argument for equating the "nation" with the "federation." Article 168 of the 1926 law justifies the federal monopoly with the argument that "as all the mineral sub-

stances were under the direct ownership of the nation and the mining industries are within the exclusive federal jurisdiction, the states shall not impose any direct or indirect taxes” ([Government of Mexico, 1926b](#), p. 11, translated by the author). In the newspaper, the Chihuahua delegate asked, “what does the transcribed paragraph wish to say? Perhaps that the nation is the federation?” If that is the case, then the law was based on a “false assumption,” because the nation “is no more than the politically organized state. And the federation, or rather the federal powers, do not become more than one of the bodies through which the nation manifests itself.” In addition, the delegate argued that if this law assumed that the nation meant the federation, it contradicted Article 40 of the constitution that established the nation was composed of free and sovereign states in respect of its internal regime, but united in one federation. In the end, one law could not take precedence over the constitution (*Excelsior*, June 23, 1926, as cited in [Aboites Aguilar, 2003](#), pp. 128–129, translated by the author).

In addition to expressing the state’s disagreement in the newspaper, the governor of Chihuahua, Jesús Almeida, criticized that the 1926 law would put the economic life of the state in danger. Governor Almeida also led the opposition of a group of states, including Durango, Veracruz, Sinaloa, Michoacán, and Puebla, against the 1926 law on the mining industry (*Excelsior*, June 22, 1926, as cited in [Aboites Aguilar, 2003](#), p. 166; and [Aboites Aguilar, 2003](#), p. 312).

The states’ opposition forced the federal government to step back from Article 168 of the *Law on the Mining Industry* (May 1926). Later in August 1926, the federal government published the *Law of the Taxes on the Mining Industry*, in which the states were allowed to collect the federal tax and were granted the authority to establish a property tax on the building and machinery of the profitable plants and metallurgical establishments in their territories, with an annual rate lower than 0.5% (see Article 33, [Government of Mexico, 1926a](#), p. 5).

Similar to the taxation of the mining industry, the federal government’s initiative to federalize taxes on the oil and beer industries also encountered states’ resistance. In terms of the oil industry, Veracruz as one of the most affected states was keen to protect its revenues from oil and was critical of how the federal government distributed such revenues

after Cárdenas's oil expropriation in 1938 (Aboites Aguilar, 2003, pp. 180–187). Similarly, in the beer industry, the federal government began the federalization of the taxes in 1928, but by 1930, only three states (Nuevo León, Veracruz, and Sinaloa) joined the agreement (Aboites Aguilar, 2003, pp. 172–173).

In sum, although the postrevolutionary federal administrations desired to build a common national market, the states notably deviated from such a policy agenda. To meet their fiscal needs after the revolutionary wars, the state governments reestablished the *alcabalas*, which impeded the flow of goods across the state borders and the national economic development. When the federal government decided to solve the problems associated with the fiscal anarchy through a tax overhaul, the states openly voted against the federal government's proposal in the First National Tax Convention in 1925. This failure to reform the fiscal system in 1925 led the federal government under President Calles to adopt a gradual strategy to federalize taxes on various large industries and natural resources one at a time. Such a gradual strategy again encountered states' disobedience, as federalizing taxes on the industries often hurt the revenues of those states that more heavily relied on such industries. This is shown by the example of how the state of Chihuahua resisting the *Law on the Mining Industry* in 1926 as well as the general lack of enthusiasm among state governments towards the federal government's other initiatives, such as federalizing taxes in the oil and beer industries.

This section (5.4.3) presents the evidence with regard to the state governments' deviation behaviors. Specifically, I show two examples of state governors, Governor Zuno of Jalisco and Governor Maximino of Puebla, who pursued economic policies different from the federal government's economic agenda. It is worth noting that Governor Maximino in the 1930s had a less confrontational relationship with the federal government than Governor Zuno in the 1920s. This is consistent with the theoretical expectation that higher levels of political centralization in the 1930s reduced the intensity of the state governments' policy deviation behaviors. In addition, this section also establishes that state governments engaged in fiscal policy deviations. Driven by their local interests, the states did not enthusiastically follow the federal government's fiscal initiative to establish fiscal unity or its agenda of creating a common national market. Instead, the states sought to keep their revenue sources, although

such efforts may lead to a public display of frictions between the federal and state governments. Overall, the pieces of evidence are consistent with my expectations. Compared to the Chinese case in the 1950s, the Mexican state governments were indeed more likely to engage in policy deviations, as a result of their having more independent policy preferences and being less concerned about their career punishments than the provincial leaders in China.

5.4.4 NG: Frustrated and Desired Higher Economic Centralization Levels

Compared to the Chinese central government, the Mexican federal government was far less ideological. The postrevolutionary presidents indeed pursued social and economic policies that aimed to transform the nation, such as the land reforms, but they were pragmatic in their approaches. Even President Cárdenas, the most radical postrevolutionary president, merely aimed to build a corporatist state, a much less radical agenda than building a communist state, which was aspired by the Chinese central government in the 1950s. The theory developed in Chapter 2 predicts that, this relatively high level of pragmatism of the Mexican federal government would allow it to better tolerate the states' policy deviation behaviors than its Chinese counterpart. However, the theory also predicts that there would be a limit to the federal government's tolerance. In particular, the rationale for the federal government's tolerance is that the federal government's benefits derived from the level of economic decentralization, particularly the economic efficiency gains (for instance, from allowing the states to take advantage of their better information about their own states and to exploit the economies of scale at the state level) outweigh the federal government's costs from not being able to implement its preferred economic policies in the states. In this section, I show that in the Mexican case, the federal government did not find maintaining the level of fiscal decentralization could bring much economic efficiency, while the costs of not being able to establish the common market were clear.

Firstly, the federal government did not find high fiscal decentralization could bring economic efficiency. As discussed earlier, in the 1920s, the fiscal decentralization level was so high due to the Mexican revolution that the federal government described the situation as "fiscal anarchy." Rather than believing that this high level of fiscal decentralization was

conducive to economic development, federal public officials, such as Manuel Gómez Morín and Treasurer Alberto J. Pani, regarded it as the cause for a highly inefficient system that impeded the economic development in the 1920s.

In April 1928, faced with the rise of the internal tariffs, specifically the *alcabalas*, the SHCP spoke to the Secretariat of the Interior to complain about the burden of the *alcabalas* on the beer industry in various states. The Secretariat of the Interior sent several recommendations to the state governments, but due to the weak political control of the federal government over the states, these recommendations were not effective. Those states continued with their previous practice to collect the *alcabalas* ([Aboites Aguilar, 2003](#), p. 313).

The federal government's lack of political control over the states reinforced the federal public officials' belief that to improve the efficiency of the fiscal system required centralizing the fiscal authority at the federal government. The logic was that the federal government was in a better position to understand the interests of the whole nation than the states that could only see the parts. Thus, only the federal government could bring fiscal order, homogeneity, and simplification. Moreover, the federal public officials argued that the states should not oppose the federal government's endeavor, because the federal government could better realize the states' interests ([Aboites Aguilar, 2003](#), p. 113).

Such ideas dominated the discussions among the federal officials since the 1920s. These ideas show that the federal government regarded the level of fiscal decentralization at that moment to be so high that it impeded the national economic development. The federal government did not see efficiency gains from maintaining or increasing the level of fiscal decentralization. If anything, the federal government preferred fiscal unity and simplification that the federal officials believed to be possible only through fiscal centralization.

Secondly, the federal government perceived the high costs of not being able to build a common national market. Among the disadvantages of the market fragmentation, the federal officials identified two problems: the economic wars among the states, and the inability of the federal government to make national plans.

As discussed in the previous section ([5.4.3.3](#)), in the First National Tax Convention (1925), Treasurer Pani criticized that the lack of fiscal coordination led to a situation that

states rivaled each other and introduced local protectionism measures. Such rivalry further contributed to an inefficient tax system, where the multiplicity of quotas, fines, and surcharges not only raised the costs of tax collection, but also imposed heavy and often unfair burden on the economic entities (Aboites Aguilar, 2003, p. 295). Similarly, President Cárdenas in the 1930s also believed that it was time to strengthen the federal government. He reasoned that it was a serious limitation that the public finance legislation varied from states to states, regrettably provoking true economic wars between one state and another. These economic wars were destructive to the integrated national development, which required the fiscal legislation to follow a set of uniform standards (Aboites Aguilar, 2003, p. 112).

In addition, the federal government also viewed the market fragmentation to be limiting its capacity to make plans about the national development. In an SHCP's document, which was sent to the Congress of the Union in 1926 and aimed to solve the fiscal anarchy problem,⁶ the SHCP emphasized that the technological progresses in the 19th century changed the economic relations. The invention of the telegraph, the railways, the automobiles, and the aviation reduced the distances and boosted the transportation speed. Such developments made the large industries possible and led to trade on a much larger scale. To adapt to these technological advances and economic changes, each nation aimed to establish a single economy in its territory. The old concurrent legislative powers in the fiscal matters that had existed before the technological development in the 19th century should receive radical reforms, in order to adjust the fiscal system to better meet the current developmental needs (Aboites Aguilar, 2003, p. 125). In particular, according to Manuel Gómez Morín, who presided the First National Tax Convention, it was necessary to solve the fiscal fragmentation problem so that the government could make plans for the national economic development and for exploiting Mexico's rich natural resources (Aboites Aguilar, 2003, p. 107).

To summarize, this section shows that although the Mexican federal governments over time were pragmatic, they did not perceive that the high fiscal decentralization level could bring economic efficiency gains. To the contrary, the federal governments regarded the

⁶After the First National Tax Convention, the SHCP prepared this document which proposed a constitutional reform to solve the fiscal anarchy problem. But for some unknown reasons, this constitutional reform initiative was not debated in the Chamber of Deputies and thus no constitutional reform was made (Aboites Aguilar, 2003, pp.124–127).

fiscal system as highly inefficient, whose efficiency could only be improved through fiscal centralization. In the meantime, the federal governments' inability to control the state governments and to create a common national market was perceived as harming the national economic development, due to the economic wars among the states and the inability of the federal government to make national plans.

5.4.5 Fiscal Centralization Policies and State Governments' Responses

The previous sections have shown that the high level of political decentralization made it more likely for the state governments to disregard the federal government's economic agenda. The states' policy deviation behaviors further led the federal government to prefer a high level of fiscal centralization in the 1920s. In this section, I discuss the federal government's fiscal centralization policies and the state governments' responses.

The federal government began its fiscal centralization efforts since the 1920s under President Calles and continued through the 1940s. As the fiscal centralization level increased, the state governments lost more and more revenues and autonomy so that they increasingly depended on the federal government fiscally as well as politically. However, by the end of the 1940s, the political decentralization level in Mexico was still much higher than the Chinese case in the 1950s. Thus, the state governments were still more likely to engage in economic policy deviations in Mexico than the Chinese provincial governments in the 1950s, despite the increase in the fiscal centralization level. I argue that the state governments' deviations were resulted from a lack of capacity instead of a lack of willingness on the federal government's part to establish a more centralized fiscal system.

5.4.5.1 Fiscal Centralization Policies The level of political decentralization was high since the beginning of the postrevolutionary regime. The idea of fiscal centralization was appealing to the federal government also since the beginning of the regime in the late 1910s and early 1920s. Nevertheless, the fiscal centralization efforts met with strong opposition from the states in the 1920s and the federal government could not achieve much progress in centralizing fiscal resources and authority in the early 1920s. Beginning in the late 1920s,

President Calles initiated a gradual strategy of fiscal centralization, which over the course of two decades slowly but steadily increased the fiscal authority of the federal government. The fiscal centralization process also contributed to the political centralization process in this time period. In the late 1940s, the federal government under President Alemán moved further in the fiscal centralization direction, by passing a proposal to institutionalize a more centralized fiscal system in the Third National Tax Convention and establishing a national sales tax (ISIM).

There were two major failed attempts at fiscal centralization by the federal government in the early and mid-1920s: the attempt to establish a federal property tax since 1923 and the initiative to reform the constitution since 1926.

In October 1922, President Obregón issued a presidential decree to establish a federal tax at an annual rate of 0.1% on the land value. Traditionally, the property tax had always been collected by the states and there was a widely accepted notion, shared by other federal countries as well, that the direct taxes, such as the property tax, should be collected by the states, and the indirect taxes, such as the taxes on consumption, should be collected by the federal government. Hence, the 1922 decree caused strong backlash from the state governments. Immediately after the announcement of the decree, the president's office received more than 60 telegrams complaining about the new tax. Subsequently, in the National Land Registry Convention (*convención nacional catastral*), the state delegates again expressed their opposition against the tax and questioned its constitutionality for its potential violation of states' sovereignty. Due to the states' opposition, the federal government aborted the federal property tax in 1924 and agreed in the First National Tax Convention that the fiscal authority of the property tax should be exclusively local ([Aboites Aguilar, 2003](#), pp. 114–122).

A similar failed attempt was the Calles government's initiative in 1926 to reform the constitution with the hope to solve the fiscal anarchy problem once and for all. This initiative was first approved—despite the strong state opposition—during the First National Tax Convention (1925), which proposed to separate the tax authority among the three levels of governments: the federation, the states, and the municipalities. Later, in November 1926 the SHCP sent the initiative to the Congress of the Union, aiming to establish a central-

ized organization of the public finance. Specifically, if passed, the constitutional reforms would give the federation the exclusive tax authority over the industry and trade, which by then had been in the hands of the states and the municipalities. But due to the states' opposition, the initiative never received a debate in the Chamber of Deputies. In 1931, the SHCP decided to withdraw the initiative and revise it, but it never returned to the Congress (Aboites Aguilar, 2003, pp. 124–129).

The setbacks in the early and mid-1920s led the federal government to temporarily abandon the comprehensive approach and adopt a more gradual strategy. Specifically, from the late 1920s to the early 1940s, the federal governments used exemption of individual states' federal contribution (*contribución federal*) to incentivize the states to follow the recommendations passed in the First National Tax Convention. Moreover, as mentioned earlier (Section 5.4.3.3), the federal governments also expanded its tax authority through federalizing the taxes on the large industries and natural resources one branch at a time and established the system of unconditional transfers (*participaciones*) to minimize the states' opposition. It is worth noting that such fiscal centralization efforts were consistent, despite the leadership shifts from President and the maximum leader Calles to Presidents Cárdenas and Ávila Camacho.

The federal contribution had its origin in the *contingente*, which was established in 1824 for the newly independent federal government to support itself by obtaining a share of the states' revenues. Its name was changed to the federal contribution (*contribución federal*) in 1860. The rates of the federal contribution in the postrevolutionary period varied from as high as 60% during the Carranza period to around 25% in the late 1920s. In 1929, the federal government began the program of exempting those states that followed the SHCP's recommendations from the First National Tax Convention. Specifically, to receive the exemptions, the states should (1) abolish the taxes prohibited by Article 117 of the constitution, namely the taxes on the circulation of goods (the *alcabalas*); (2) cancel the tax exemptions on persons or businesses that favored certain taxpayers; and (3) cancel the contracts or agreements with persons or corporations for tax collection purpose (Aboites Aguilar, 2003, pp. 156–158).

Overall, the exemption program was not very effective at centralizing the fiscal authority while created its own problems. The reason for its ineffectiveness was again linked to the

states' policy deviation behaviors, resulting from the lack of political control of the federal government during this period. For instance, certain states that had initially followed the SHCP's recommendations and obtained the exemptions, such as Tamaulipas, later established new local taxes that were against the SHCP's directives ([Aboites Aguilar, 2003](#), pp. 159–160). In addition, the manipulation of the federal contribution also created inequalities among the federative entities, as some entities obtained the exemptions but others did not. States complained about the inequalities created by this program and called for the end of the federal contribution during the Second National Tax Convention in 1933 ([Díaz-Cayeros, 2006](#), pp. 64–66). But the federal government continued to keep the federal contribution in the 1930s, which was eventually abolished in 1949 under President Alemán ([Aboites Aguilar, 2003](#), p. 390).

As discussed in the section on states' policy deviations ([5.4.3.3](#)), since the late 1920s, the federal government gradually expanded its tax authority in large industries and natural resources, namely the excise taxes. According to [Aboites Aguilar \(2003\)](#), the political incentive (the federal government was unable to reform the taxes on industry and trade in a more comprehensive manner as a result of the states' opposition) was certainly crucial for the federal government to make the decision to federalize the excise taxes; but the federal government also had other motivations. Specifically, the federal officials perceived that the state governments did not have the capacity to confront the large businesses, many of which were foreign-owned and that it was necessary for the federal government itself to deal with such large investors (p. 165). Thus, from the late 1920s to the early 1940s, the federal governments successively passed presidential decrees, new laws, and constitutional amendments to create new federal taxes and centralize the fiscal authority and revenues on the large industries and important natural resources, including mining, electricity, gasoline, beer, tobacco, timber, and oil. To incentivize the states to give up their own tax authority, join the federal initiatives and obey the new laws, the federal government shared with the state governments its newly gained revenues through the unconditional transfers (*participaciones*) ([Aboites Aguilar, 2003](#), pp. 165–187).

Up until the early 1940s, the federalization of excise taxes proved to be one of the most effective ways at centralizing the fiscal revenues and authority during the postrevolutionary

period. Since it was gradual, states' obstruction was weaker and more scattered. The states' opposition also varied across industries. For instance, it was more salient in the mining and beer industries than in the other areas. Over time, a key feature of Mexico's centralized fiscal system—the system of *participaciones*—began to take shape. The average proportion of *participaciones* in the federative entities' fiscal expenditures increased from 2.6% in 1931 to 19.1% in 1942 (Aboites Aguilar, 2003, p. 276). As the revenues accrued to the federal government, the political power balance also tilted towards the federal government. States increasingly relied on the federal government to fund their public projects. Scott (1959) observed that the increasing financial dependence of the state governments “forced the local officers to go to Mexico City, hat in hand, seeking grants from the national government to satisfy the demands of their constituents” (p. 135). As a result, the federal government was more able to leverage its fiscal power to influence the states' politicians and rein in their policy deviation behaviors. For instance, in 1936 Cárdenas proposed to impose a sanction on those states that failed to coordinate with other states on a certain tax by not giving the disobedient states their *participaciones* (Aboites Aguilar, 2003, p. 269). Although there is no evidence that this sanction was ever applied, the possibility of such a sanction was a direct consequence of the fiscal centralization process during this period.

When President Alemán took power in 1946, the political decentralization level was much lower than the 1920s. His administration was thus able to achieve more fiscal centralization results than the previous administrations. But compared to the Chinese case, the political decentralization level was still much higher, which helped sustain the federal government's desire of a centralized fiscal regime. The Alemán administration's fiscal agenda was again to establish fiscal order in the country. Specifically, his government organized the Third National Tax Convention in 1947, in which the conventionalists passed recommendations to establish a more fiscally centralized system. In addition, following the tax convention and with the congressional approval, the federal government passed a law and established a general sales tax, namely the ISIM. Both measures pushed for higher fiscal centralization levels.

Despite the federal efforts in the 1920s and 1930s, Mexico still had a fragmented fiscal system in the 1940s, because of the World War II. On the one hand, the federal government

prioritized the economic activities related to the war efforts instead of reforming the fiscal system. While at the same time, the federal and state governments were also eager to share the economic prosperity generated by the rapid development of the private sector. As a result, the different levels of government established new taxes, including more *alcabalas* in the states, which preserved the fiscal fragmentation problem. Once again, the fiscal disorder created obstacles for the economic and social development, including concerns about corruption resulted from the complex tax system and the unfair and onerous fiscal burden on the economic entities. These concerns again propelled the federal government to continue with the fiscal centralization agenda ([Aboites Aguilar, 2003](#), pp. 195–197).

The first major fiscal centralization effort of the Alemán administration was to hold the Third National Tax Convention in November 1947. This convention passed the federal government's proposal of a more centralized fiscal system. This system differentiated the taxes into the exclusive revenue for the federal government and the state governments, the shared revenue through the unconditional transfer (*participaciones*) system, and the concurrent revenue.

The taxes that belonged to the exclusive revenue of the federal government included the tariffs and income tax; while the exclusive sources of revenue of the state governments included the property tax, the taxes on agriculture and livestock, and the taxes on the transfer of real estate ownership. Secondly, the shared revenue through the *participaciones* system included the excise taxes, most of which had been federalized before the 1940s, as discussed earlier, and then the sales tax, which had not been federalized yet but its federalization was on the federal government's agenda. Thirdly, the concurrent revenue referred to the taxes on the remaining sectors of trade and industry, and the excise taxes on yarns and fabrics, on the production and trade of sugar, alcohol, beer, and packaged water. The proposal stated that the concurrent revenue should tend toward more uniformity in the future ([Aboites Aguilar, 2003](#), pp. 200–201).

The foundation of this centralized system had already been laid by the federal government gradually since the establishment of the regime. These efforts included the establishment of the income tax in 1924 and the federalization of excise taxes in the large industries and natural resources since the late 1920s. The next major task that the Alemán administration

took on was to establish a national sales tax, the ISIM. With the ISIM, the federal government attempted to establish a federal tax on trade and abolish the concurrent taxation. Such a centralization effort was considered to be an essential step towards creating the common national market.

According to the law passed in December 1947, the ISIM was set to be at the rate of 3.3%. It would replace the old stamp tax in the area of sales. But since this new law of the ISIM did not achieve the status of the constitution,⁷ its legal effect in each federative entity depended on whether the entity joined the arrangement. To motivate the federative entities to adopt the ISIM and abolish their previous taxes on trade and industry, the 1947 law promised that the states would share the ISIM at the rate of 1.5%, while the rate for the federal government was 1.8% (see Article 8, [Government of Mexico, 1947](#), p. 2).

Despite the political centralization process from the 1920s to the 1940s, the responses of the states toward the ISIM were still lukewarm. In 1948, only the Federal District and the two federal territories, Baja California Sur and Quintana Roo, joined the arrangement. Over the next three years, six more states joined the ISIM, including Aguascalientes (1949), Morelos (1950), Querétaro (1950), Tlaxcala (1950), Michoacán (1951), and Sinaloa (1951). By the end of the 1950s, only half of the states adopted the ISIM. It was only in the 1970s did all federal entities join the ISIM ([Díaz-Cayeros, 2006](#), pp. 126–131).⁸

Because the states did not enthusiastically join the ISIM arrangement, the effects of the ISIM on fiscal centralization were not as drastic as the federal government had anticipated. The ISIM revenue received by the federal government increased from 352 million pesos in 1950 to 1,108 million in 1960 and 5,461 million in 1972. The share of the ISIM in the federal government's total tax revenue was approximately the same, as the federal tax revenues during this period also increased proportionally. Specifically, the ISIM's share was 12%,

⁷The federal government attempted to initiate a constitutional reform in the tax convention in 1947, in which the federal government proposed to make the national tax laws (*ley nacional de arbitrios*) part of the constitution. If the initiative had been passed, the federal government would have the authority to determine fiscal policies not only for the federal level, but also for the local level. For instance, the law of the ISIM could have achieved the legal effect of the constitution, which would have obliged the federative entities to abide by it. However, due to the states' resistance in the tax convention, the constitutional reform initiative was not realized. Hence, the following tax laws, such as the law of the ISIM, needed to be agreed by each federative entity ([Aboites Aguilar, 2003](#), pp. 201–205).

⁸The ISIM was later substituted by a federal value-added tax under the National System of Fiscal Coordination (*Sistema Nacional de Coordinación Fiscal*, SNCF) in 1979 ([Díaz-Cayeros, 2006](#), p. 131).

11%, and 11% in 1950, 1960, and 1972 respectively (see Table 2, [Aboites Aguilar, 2003](#), p. 37). Despite the piecemeal effects, it was another step towards more fiscal centralization.

In summary, during the first three decades of the postrevolutionary regime, although the factions that controlled the federal governments changed hands, the federal governments consistently pursued fiscal centralization policies. These policies include some failed attempts in the 1920s and the relatively successful pursuits in federalizing the excise taxes since the late 1920s and the establishment the ISIM in the 1940s. These fiscal centralization measures were mostly driven by the problems of fiscal disorder, which could in turn be attributed to the lack of political control of the federal government over the state officials. But on the other hand, over time, the process of fiscal centralization contributed to more concentration of political power at the federal level, which then gave the federal government more tools to pursue its fiscal centralization agenda.

Thus, the Mexican case shows that the relationship between fiscal centralization and political decentralization is more nuanced than a monotonic linear relationship. Particularly, it shows a relatively high level of political decentralization gave the federal government the incentives to centralize the fiscal authority. But without a minimum level of political centralization, the federal government lacked the capacity to achieve much. The actual levels of fiscal centralization depended both on the federal government's incentives and its capacity.

5.4.5.2 State Governments' Responses The theory predicts that for a relatively politically decentralized system, such as Mexico in the early twentieth century, the equilibrium outcome is to set the economic decentralization level either at the subnational governments' deviation threshold (when the national government prioritizes policy implementation), or at a level relatively greater than the subnational governments' deviation threshold, which implies allowing some policy deviation behaviors (when the national government prioritizes the economic efficiency gains vis-à-vis policy implementation). In the first scenario, there would be no policy deviations; while in the second, there would be. But it is important to note that what the model predicts is the national government's preferred economic decentralization level, rather than the actual level. In the Mexican case, this distinction is crucial.

In Mexico, we do observe the states' fiscal policy deviations in the 1940s. However,

it was not that the federal government deliberately allowed the fiscal policy deviations to attain more economic efficiency; instead, the cause for such deviations was that the federal government was not able to achieve the high fiscal centralization level it wanted.

In the 1940s, although the federal government under President Alemán enthusiastically tried to unify the fiscal system and establish fiscal order, the state governments deviated from this policy agenda by not supporting the federal government's initiatives.

For instance, states obstructed the constitutional reforms proposed by the federal government in the Third National Tax Convention in 1947. In the tax convention, besides the proposal of a more centralized fiscal system mentioned earlier, the federal government also attempted to reform the constitution to expand the power of the federal executive, at the expense of the states as well as the legislative and judicial branches. Among the proposed reforms, the federal government tried to elevate the national tax law (*ley nacional de arbitrios*) to the status of the general constitution. In every six years, the Congress of the Union would determine whether to pass the national tax law. And the national tax law would have the authority to determine which taxes are exclusively federal. If these constitutional reforms were passed, the federal government would greatly expand its fiscal authority that could determine fiscal policies at both the federal and state levels (Aboites Aguilar, 2003, pp. 202–203).

The reaction of the states was strong opposition. As a result, this attempt at the constitutional reforms failed. For example, state delegates from Hidalgo, State of Mexico, Morelos, and Puebla contended that the state governments had never opposed coordinating with the federal government, at least since the Second National Tax Convention in 1933. Moreover, the states already honored the federalization of the excise taxes, such as on tobacco, timber, and maguey juice industries. Fiscal uniformity was possible within the current constitutional framework. Hence, there was no need for the radical constitutional reform proposed by the federal government. According to the memory of a federal delegate Armando Servín, the state opposition against the proposal of the constitutional reforms was so strong that the proposal was simply ignored (Aboites Aguilar, 2003, pp. 204–205).

This example shows that even after two decades of the political centralization process, states still had their own preferences and were still able to hinder the federal government's

agenda without fearing career punishments. It shows that the political decentralization level in the 1940s Mexico was still high and states' deviation thresholds were low. The fiscal decentralization level was not low enough to stop the states' policy deviations.

In addition, the fact that states were able to stay out of the ISIM arrangement also shows how they could deviate from the federal government's agenda. Although the federal government tried to unify the taxes on commercial transactions, very few states joined the federal government's endeavor enthusiastically. As mentioned earlier, only two federal territories and the Federal District joined the ISIM in the first year. By the end of President Alemán's term (1946–1952), “only one-third of the states accepted a unified federal sales tax” (Díaz-Cayeros, 2006, p. 127). It took approximately two decades for all states to join the ISIM.

But it is important to add that the tone of the state governments in the 1940s was much more moderate than the state governments in the 1920s, reflecting the increasing political and fiscal control the federal government had over the states. Recall that in the 1920s, states such as Chihuahua fiercely denounced the Calles's initiative of federalizing the excise taxes in the mining industry publicly in the newspaper *Excelsior*. But in the 1940s, the criticism was much more modest. This dynamic was consistent with the contrast between Governor Zuno in the 1920s and Governor Maximino in the 1930s, discussed in Sections 5.4.3.1 and 5.4.3.2 respectively. The political centralization process from the 1920s to the 1940s was effective in reducing states' confrontations with the federal government.

Although the above evidence shows how states still deviated from the federal government's policy agenda in the 1940s, it was not that the federal government intentionally sacrificed policy implementation in exchange for higher economic efficiency. The federal government's failed attempt to change the constitutions to expand its own fiscal authority demonstrates that it was not a lack of willingness but a lack of capacity to achieve a higher level of fiscal centralization. Similarly, the federal government also continued to push for the acceptance of the ISIM among the states that were reluctant to join. For instance, it attempted to reform the ISIM in 1953 to attract more states to join, but 14 states still refused (Aboites Aguilar, 2003, p. 215). In the 1970s, the federal government increased the states' share in the ISIM, promised to provide them with other benefits, and also employed

political pressure. Only by then did all states finally join the ISIM (Díaz-Cayeros, 2006, p. 131).

In summary, despite the political centralization and fiscal centralization processes from the 1920s to the 1940s, the states in the 1940s were still able to resist the federal government's fiscal policy agenda. However, I also find that this was an outcome of the lack of capacity of the federal government to reach an even higher level of fiscal centralization, instead of an intentional pragmatism. The situation in the 1940s Mexico did not reach an equilibrium.

This section discusses the final link of the causal mechanism in Figure 5.1. The evidence provided by the Mexican case from the 1920s through the 1940s confirms that the federal government indeed pursued fiscal centralization policies when the political system was relatively decentralized. The consistency of the various federal administrations to pursue fiscal centralization despite their different ideological leanings is also encouraging. The theory predicts that as long as the system is politically decentralized and the federal government values economic policy implementation (in this case the economic agenda was to establish a common national market), we would observe the federal government's tendency to pursue a high level of economic centralization. Thus, whether the federal government was led by a more ideologically leftist president, like Cárdenas, or by a more conservative president, like Alemán, is not expected to influence its propensity toward more economic centralization.

On the other hand, I find that instead of completely stopping the states' deviation behaviors, the states in the 1940s were still able to resist the federal government's fiscal centralization agenda. But I argue that this was an outcome of the federal government's incapacity to reach its preferred fiscal centralization level.

By the end of 1940s, the political decentralization level was still high, especially compared with the Chinese case, which resulted in the states' low deviation thresholds. The fiscal centralization level achieved in the 1940s was not high enough to curb the states' deviation behaviors. These two factors (low fiscal centralization level and high political decentralization level) contributed to the states' fiscal policy deviations. As a consequence, the federal government in the 1940s continued to pursue the fiscal centralization agenda.

Finally, although both the Chinese and Mexican systems were party-based authoritarian regimes, the consistent fiscal centralization policies in Mexico form a stark contrast with

the Chinese case. The high level of political decentralization in Mexico during this period and the high level of political centralization in China contributed to the distinct paths of economic (de)centralization that these two countries took.

5.5 CONCLUSIONS AND DISCUSSIONS

5.5.1 Main Findings

In summary, this chapter tests the theoretical model against the Mexican case over the three decades from the 1920s to the 1940s. In general, I find supportive evidence for the links of the predicted causal mechanism in Figure 5.1, except the states' responses in the 1940s.

Firstly, as expected, Mexico during this period was highly politically decentralized, although the level of political decentralization decreased over time. I identify two factors that contributed to the decentralized nature of the Mexican system: its *de jure* federal constitution and the *de facto* fragmented nature of the revolution in the 1910s. I particularly emphasize that the Mexican revolution was a revolution without a centralized political party or other centralized authority. This initial condition left a long-lasting legacy of political decentralization, characterized by powerful regional strongmen and relatively autonomous state politics. Over the three decades studied in this chapter, the federal government gradually concentrated political power through the establishment and institutionalization of an official dominant party, from the PNR to the PRM, and finally to the PRI. But the regional fragmentation was so strong that by the 1940s, Mexico was still relatively politically decentralized, especially compared with the Chinese case.

Secondly, I find supportive evidence for the second links of the causal mechanism: the state governments had (1) independent economic policy preferences—the policy preference divergence between the state and the federal governments was big—while (2) they lacked strong career incentives to follow the federal government's policy agenda. In Chapter 2, these two factors were captured by the concept of low deviation thresholds, which are predicted to result in states' strong tendency to deviate from the federal government's economic policy

agenda.

In the Mexican case, the existence of high economic policy preference divergence between the federal and state governments is confirmed by the states' voting patterns in the First and Second National Tax Conventions as well as the ideological divergence between the presidents and the state governors. The lack of strong career incentives is supported by the lack of institutional tools for the federal executive to remove the state governors. It is true that over time the federal government's leverage over a state governor's career increased, resulting in stronger career incentives of the governors, but by the 1940s the procedures required to force a governor's resignation were still much harder than the Chinese case, where purging a provincial leader did not require much except the politburo's, if not just Mao's, decision.

Thirdly, consistent with the expectations, the Mexican state governments were likely to engage in economic policy deviations. The case of Governor Zuno of Jalisco and Governor Maximino of Puebla showed how the low deviation thresholds made them pursue economic policies that were quite different from the federal government's policy agenda. In terms of fiscal policies, although the postrevolutionary federal government had wanted to establish fiscal unity since the beginning of the regime, the states nonetheless established local protectionist taxes and sustained fiscal fragmentation. With regard to the states' policy deviations over time, I find that as the political system became more centralized, the relationship between the federal and state governments became less confrontational and consequently the policy deviations became less blunt. This is evident in the comparison between Governor Zuno in the 1920s and Governor Maximino in the 1930s, as well as in the increasingly softer ways in which the states expressed their opposition against the federal fiscal centralization initiatives.

Fourthly, the evidence also confirms that the states' fiscal policy deviations led the federal government to desire a higher level of fiscal centralization. Specifically, since the 1920s, the Mexican federal government perceived the actual high level of fiscal decentralization to be inefficient, while at the same time, was frustrated by its inability to establish a common national market. The federal officials, such as Pani and Gómez Morín repeatedly emphasized the inefficiency of the fragmented fiscal system in the country. At the same time,

the federal government valued economic development and the establishment of a common national market. The federal officials believed that the fiscal fragmentation obstructed Mexico's economic development by sustaining the inter-state economic rivalries and weakening the federal government's capacity to make national plans.

Finally, with regard to the final link, I find supportive evidence for the federal government's fiscal centralization policies but opposite evidence on the state governments' responses, namely the states still deviated from the federal government's fiscal policy agenda in the late 1940s. The federal administrations from the 1920s to the 1940s consistently sought to centralize the fiscal system: the federal government tried but failed at both establishing a federal property tax and reforming the constitution in the early and mid-1920s, gradually federalized the excise taxes on large industries and natural resources in the 1930s and early 1940s, and established the national sales tax, ISIM, in the late 1940s. Different from the theoretical prediction, the states still engaged in fiscal policy deviations after the three decades of the political and fiscal centralization. Such deviations were reflected in the states' opposition against the federal government's initiative to reform the constitution in 1947 and their staying out of the ISIM arrangement. I argue that the state governments' policy deviations were resulted from the incapacity of the federal government to establish a higher level of fiscal centralization, rather than an intentional decision on the federal government's part.

5.5.2 Limitations of the Model

The Mexican case overall confirms the expected causal mechanism in Figure 5.1. At the same time, it also sheds light on some limitations of the proposed mechanism.

Firstly, overall I do find that the high level of political decentralization in the early period of the regime sustained the consistent efforts of fiscal centralization during the three decades covered in this chapter. However, during the three decades, I also find feedback mechanisms that were more complicated than the unidirectional mechanism posed in Figure 5.1. Particularly, the federal government's fiscal centralization policies had two opposite effects on the states' behaviors: (1) it triggered states' fiscal policy deviations, including opposing the federal government's initiatives to reform the constitution and staying out of the

federal government's fiscal arrangements, because states wanted to keep their fiscal resources and authority; and (2) it indirectly reduced states' fiscal policy deviations through increasing the political centralization level and granting the federal government more tools to control the states. In the Mexican case, the second feedback (fiscal centralization led to political centralization) and the successful establishment of a dominant party, among other factors, contributed to a faster process of political centralization. The political centralization process strengthened the federal government's capacity to further acquire both fiscal authority and political authority over time from the 1920s to the 1940s.

However, hypothetically it is possible that in some cases the first feedback mechanism can offset the second one, especially when the national government is unable to centralize the fiscal resources and authority. In this scenario, the subnational governments are expected to remain defiant against the national government, which in turn would trigger stronger incentives for the national government to pursue fiscal centralization policies. In the end, the tensions between the two levels of governments would accumulate.

Secondly, the Mexican case also highlights the important distinction between the federal government's *willingness* to pursue fiscal centralization and its *capacity* to do so. The theoretical model analyzes the factors that determine the national government's preferred economic decentralization level, namely it is a model about the national government's incentives. The causal mechanism attempts to explain the Mexican federal government's decision to pursue fiscal centralization policies. The actual fiscal centralization level, on the other hand, depended not only on the federal government's desire, but also on its ability to centralize the resources and authority it so desired. In particular, the political system in Mexico was so decentralized in the postrevolutionary period that it was very difficult for the federal government to achieve the high level of fiscal centralization it wanted. For instance, even in the late 1940s, the federal government was still unable to have all the states join its ISIM arrangement.

In this sense, my dissertation does not argue against the earlier literature's conclusion that political centralization brings about fiscal centralization (Díaz-Cayeros, 2006). My dissertation discusses the effects of political decentralization on the national government's *incentives* to pursue economic centralization, while Díaz-Cayeros (2006) discusses the ef-

fects of political decentralization on the national government's *capacity* to pursue economic centralization.

With regard to the correlational association between the levels of political centralization and economic decentralization, it is possible that they have a U-shaped relationship: (1) when political centralization level is very low, the national government is expected to have strong incentives to centralize the economic resources and power. But due to its lack of tools to pursue the economic centralization policies, the outcome is expected to be high levels of economic decentralization; (2) when political centralization level is at its medium level, the national government has both the incentives and the capacity to pursue economic centralization and thus we would expect a low level of economic decentralization; and (3) when political centralization level is at its maximum, the national government trusts the subnational governments more and thus does not have strong incentives to maintain high economic centralization levels, even though it still has the capacity to do so. We would expect a high level of economic decentralization. I test this U-shaped relationship with the large-N statistical analysis in Section 6.5 in Chapter 6.

5.5.3 Alternative Explanations

Now I analyze two alternative explanations that can challenge the theory, particularly the need to use the high level of political decentralization to explain the fiscal centralization policies in the Mexican case.

One may argue that the federal government could just be predatory and want to control all the fiscal resources and authority they could obtain, regardless of whether the political system was decentralized or not.⁹ This explanation is insufficient for the following reasons. As I have shown, during the three decades, although the presidencies changed hands, the fiscal centralization efforts were consistent. To assume all the administrations in the three decades were predatory and only cared about maximizing their own fiscal authority is overly simplified. It is inconsistent with the official discussions in the multiple national tax conventions, where the federal government always highlighted the importance of establishing fiscal

⁹For instance, Díaz-Cayeros (2006) made this assumption when he analyzed the voting patterns of the federal and state delegations in the First National Tax Convention (pp. 53–54).

unity to create a common national market and develop the country's economy. Although we need to take the official rhetoric with caution, the consistent emphasis on the need for fiscal unity over the long period of time supports that it was a genuine desire of the federal government. Moreover, the fiscal centralization efforts not only involved the presidents but also other federal public officials, such as those in the SHCP. That these public officials were frustrated by the fiscal anarchy problem and also consistently pushed for fiscal centralization policies is another piece of evidence suggesting that simply assuming that the federal government wanted fiscal centralization because the federal officials were predatory was insufficient.

The other alternative explanation is that fiscal centralization was a logical solution to the prevalent fiscal anarchy problem in Mexico. Thus, regardless of the level of political decentralization, the federal government would pursue fiscal centralization policies. This explanation is also incomplete. It is true that the fiscal anarchy problem was evident in Mexico and it was logical to pursue fiscal centralization policies, but the nature of the fiscal anarchy problem was related to the high level of political decentralization. This chapter's main contribution was to make a causal claim between the high level of political decentralization and the state governments' fiscal policy deviations, which made the federal government adopt the fiscal centralization policies. Counterfactually, if Mexico had been politically centralized, the theory would predict much weaker fiscal policy deviations and fewer needs for the fiscal centralization policies.

5.5.4 Implications

This chapter has the following three implications.

Firstly, the political logic proved to be crucial to understand the economic centralization outcome. The lack of a centralized political authority that won the Mexican revolution became a key initial condition that led to a highly fragmented postrevolutionary regime. The high level of political decentralization implied low deviation thresholds of the state governments and a strong incentive of the federal government to pursue fiscal centralization policies. Although this desire of fiscal centralization was a constant over the three decades,

the federal government's capacity to implement the fiscal centralization policies increased as the regime consolidated. In this case, we again observe that the economic outcome, namely fiscal centralization policies, depended heavily on the political conditions. Moreover, it is not simply that political centralization led to fiscal centralization policies. Rather, the underlying cause for the federal government's continuous efforts to increase the fiscal centralization was surprisingly the high levels of political decentralization.

Moreover, the comparison between the Mexican case and the Chinese case also highlights two interesting differences. The first one is the importance of the initial conditions. In China, the CPC, a highly centralized Marxist-Leninist party, led a successful campaign that won the Chinese revolution and was able to establish a highly centralized political regime, where the Party was able to penetrate every level of the government. This initial condition further resulted in very high deviation thresholds of the provincial leaders and the central government had a high level of trust in the provincial leaders to pursue the central government's economic policy agenda. This made the central government willing to experiment with the economic decentralization policies in the late 1950s. But because of the highly centralized nature of the political system, paradoxically the economic decentralization policies did not make the provincial leaders adopt policies beneficial for their localities. In stark contrast, the Mexican revolution itself was regionally fragmented. The revolution ended when one faction, the Constitutionalists, took the national political stage while the regions were still dominated by the regional strongmen, highly autonomous from the federal government. The highly decentralized political system then led to low deviation thresholds for the state governors, which contributed to the strong desire of the federal government to pursue the fiscal centralization policies from the 1920s to the 1940s. By the end of the 1940s, namely three decades after the establishment of the regime, the Mexican system became more fiscally and politically centralized, but the state governments were still able to engage in economic policy deviations.

Finally, the comparison between the two cases also shows the important role played by the ruling political parties. In China, the CPC was founded very early in the revolutionary process. It became a very centralized and disciplined institution under the leadership of Mao Zedong and won the revolutionary war. With the help of the CPC, the revolutionary

leaders established the regime. The historical evidence shows that not only was the regime consolidation process relatively smooth, the new regime also obtained a centralized feature. In contrast, the ruling party in Mexico was established much later than the establishment of the regime. The revolution officially ended in 1917, when President Carranza established the regime. President Calles first established the PNR in 1929 to internalize the conflicts among the regional *caudillos*. President Cárdenas transformed the PNR in 1938 from a territorially based party to a corporatist party and renamed it the PRM. President Ávila Camacho reformed the party again in 1946 and finally established the PRI. Thus, over a long period of time after 1917, the federal officials did not have a party institution to discipline the state governors. The lack of a centralized political party proved critical to understand the long-lasting political decentralization in the Mexican system.

6.0 AUTOCRACIES AND DEMOCRACIES

6.1 INTRODUCTION

The previous three chapters compare the postrevolutionary regimes of China and Mexico using the method of difference combined with theory-testing process-tracing. These two historical cases support the theory developed in Chapter 2: in authoritarian regimes a high level of political centralization can facilitate the economic decentralization process by reducing the subnational government's incentives to deviate from the national policy agenda and thereby increasing the national government's trust in the subnational officials; while following the same logic, a less centralized political system gives the national government incentives to centralize economic resources and authority. This theory stands in contrast with the theories developed in democracies that often contend that a high level of political centralization contributes to lower economic decentralization levels.

Are the two historical cases discussed in the previous chapters isolated instances? Or, are the effects of political centralization on economic decentralization policies different in autocracies from democracies? To test the generalizability of the top-down logic in autocracies and compare autocracies with democracies, this chapter conducts statistical analyses of 59 countries over the period from 1972 to 2016. I find supportive evidence that the political centralization's effects on the fiscal decentralization levels are conditional on the regime types. The results are consistent with the previous literature in that there is a negative correlation between political centralization and fiscal decentralization levels in democracies. But as countries become autocratic, the correlation becomes positive.

Section 6.2 reviews the previous literature on democracies and discusses the theoretical argument for why political centralization has different effects on fiscal decentralization in

autocracies and democracies. I expect the top-down delegation logic to be more dominant in autocracies than the bottom-up bargaining process that prevails in democracies. Section 6.3 discusses the empirical strategy, including the measures of the key variables, the data, the within-between random effects model, and the descriptive statistics of the sample. Section 6.4 discusses the main results of this chapter and shows that both the within effects and the between effects components of the model lend support to the theory that political centralization's effects are different in democracies and autocracies. Section 6.5 complements the main analysis by exploring the U-shaped relationship between political centralization and fiscal decentralization levels inspired by the Mexican case in Chapter 5; and whether political centralization's effects are conditional on the socioeconomic factors, as predicted by the theoretical model in Chapter 2. Finally, Section 6.6 summarizes the results and concludes this chapter.

6.2 POLITICAL (DE)CENTRALIZATION'S EFFECTS IN DEMOCRACIES AND AUTOCRACIES

What causes the different economic decentralization levels across countries? As introduced in Section 1.3.3 in Chapter 1, the current literature offers two main types of explanations. The socioeconomic explanations emphasize general conditions, including a country's geographic and population sizes, its urbanization levels, and its ethnic-linguistic diversity (Arzaghi and Henderson, 2005; Letelier S., 2005; Erk and Koning, 2010; Hooghe and Marks, 2012). The limitation with this type of explanation is that in reality countries with similar socioeconomic conditions can have very different economic decentralization levels. Other scholars, especially in political science, complement the socioeconomic approach by considering the allocation of economic resources across different levels of governments as a political problem and explore the institutionalist explanations for economic decentralization policies.

Against the backdrop of a decentralization wave since the 1980s that coincided with the third-wave democratization, many political institutionalist theories seek to understand how democratization and democratic institutions affect decentralization policies. Several of these

studies emphasize subnational political actors' demands as the main push for economic decentralization, and these studies are often grouped as the "bottom-up" approach. But these explanations can hardly travel to stable autocratic contexts.

From the bottom-up perspective, scholars who study decentralization in democracies and the democratizing countries find that a high level of political decentralization can contribute to economic decentralization policies. In particular, these scholars identify two mechanisms through which political decentralization can lead to the economic decentralization policies.

The first mechanism concerns the effects of direct subnational elections, which is one aspect of political decentralization. Direct local elections increase economic decentralization by making subnational officials more accountable to their local constituencies and thus expand their incentives to demand higher autonomy to serve their local constituencies. For instance, [Beer \(2004\)](#) finds that the democratization process at the subnational levels in Mexico in the 1990s increased the elected state officials' incentives to demand more fiscal resources to meet the local constituencies' demands. Fiscal decentralization was higher in the states where the state elections were more competitive (pp. 192–199). In addition, direct subnational elections facilitate economic decentralization by increasing subnational government officials' legitimacy and thus strengthening their bargaining position against the national leaders. [Falleti \(2010\)](#) shows that after Brazil introduced direct gubernatorial elections in 1982, the state governors gained more legitimacy and were more able to demand fiscal resources from the federal government (pp. 150–187). These studies contend that direct local elections increase not only subnational officials' willingness but also their capacity to demand more economic autonomy.

The second mechanism involves another aspect of political decentralization, which is the strong influence that the subnational government officials can exert over national policymakers, especially the national legislators. Scholars argue that in democracies where political institutions, including the party systems and the electoral systems, result in subnational government officials having strong influence over national legislators, subnational officials are more influential in the national policymaking process and more able to achieve their preferred outcomes, including obtaining more economic resources and authority at the subnational levels. For instance, by studying five Latin American countries, [Garman, Haggard](#)

and Willis (2001) find that countries with decentralized party systems tend to have higher fiscal decentralization, while countries with centralized political parties tend to have lower fiscal decentralization. Similarly, Haggard and Webb (2004) also contend that strong party discipline can make national legislators more responsive to the national leaders as opposed to the subnational officials and result in fiscal centralization; while in cases where the legislators' careers depend more on the subnational officials, fiscal decentralization tends to be higher.

However, the working of the above two mechanisms is contingent on the existence of bargaining between the national and subnational officials. The underlying assumption is that economic decentralization decisions are made through a bargaining process between the national and subnational leaders, with or without a formal bargaining arena, such as the national legislature. This assumption is, however, more valid in democracies than autocracies, because bargaining between the national and subnational governments is weaker or sometimes non-existent in the autocratic context.

For instance, the working of the second mechanism—that subnational officials' political influence over national legislators' careers contribute to fiscal decentralization—specifically requires the existence of an autonomous legislature that can indeed represent subnational territorial interests and has real power to shape economic decentralization policies. Although scholars have shown that legislatures in autocracies are not just rubber stamps but have their functions, such as coopting the opposition (Gandhi, 2008) and providing local information to the ruling elites (Manion, 2015), it is not controversial that on average legislatures in autocracies, if they have any, are less representative and less autonomous than their counterparts in democracies. The lack of an independent bargaining arena would consequently limit the bargaining between the national and subnational officials, and in some closed autocracies render the bargaining non-existent.

Similarly, although the first mechanism above does not specifically require a representative and autonomous legislature, it does assume that economic decentralization is an outcome of a bargaining process between national and subnational officials. Only under a bargaining process, the additional legitimacy granted by the direct subnational elections can lead to economic decentralization policies. However, in autocracies, even for those with local elec-

tions, the institutional channels where bargaining can happen are weaker, less prevalent, and sometimes non-existent. Instead, autocracies often have a top-down policymaking process, which makes the bargaining logic less applicable but the delegation logic more relevant.

How does the delegation logic work in autocracies? What differences does it make to the relationship between political decentralization and economic decentralization? Based on the theoretical model and case study evidence presented in the previous chapters (from Chapter 2 to Chapter 5), I contend that the delegation logic can reverse the relationship between the level of political decentralization and economic decentralization policies that scholars have found in the context of democracies.

Specifically, instead of leading to higher economic decentralization levels, a high level of political decentralization in autocracies can reduce the national leaders' incentives to decentralize economic resources and authority to the subnational levels; on the other hand, a high level of political centralization can increase the national leaders' incentives to decentralize the economic resources and authority.

As discussed in the Chapter 2 and demonstrated in the Chinese case during the 1950s (in Chapter 4), when political centralization level is very high, the national government has strong political control over the subnational governments' personnel. The center's strong political control not only enables the national government to select subnational officials who share the national government's economic policy preferences, but also create a strong reward-punishment mechanism that can incentivize subnational officials to implement the national government's preferred economic policies. These two conditions—similar economic policy preferences between the national and subnational officials and a strong reward-punishment mechanism—together make subnational officials more likely to implement the national government's economic agenda. Thus, under this high level of political centralization, the national government can decentralize the economic resources and authority to achieve higher economic efficiency while still anticipating its preferred economic policies to be implemented at the subnational levels.

On the other hand, as demonstrated by the Mexican case from the 1920s to the 1940s (in Chapter 5), when political centralization level is limited, it becomes more difficult for the national government to achieve the above-mentioned conditions. The national government in

these cases may need to negotiate with regional actors to decide the personnel for subnational offices. As a result, subnational officials can have more independent economic preferences, which are different from the national government's preferences. These subnational officials are especially likely to be more driven by the local interests than their counterparts in the centralized systems. In the meanwhile, due to the relatively lack of political control over the subnational government offices, the national government tend to have fewer and less strict reward-punishment mechanisms to incentivize subnational officials to implement the national economic policy agenda. Combining these two conditions, subnational officials in a relatively politically decentralized context are more likely to pursue their own preferred economic policies, if given economic resources and authority. Hence, such political conditions reduce the national government's incentives to grant economic resources and authority to the subnational levels.

Therefore, using the delegation logic to analyze the economic decentralization process in an autocratic regime, as opposed to the bargaining logic in the democratic context, I argue that political centralization can have a positive impact on economic decentralization outcomes. This hypothesis reverses the expectation developed by the previous studies on the democratic regimes that a high level of political centralization would result in economic centralization policies. In this chapter, I test the following hypothesis.

Hypothesis 4 *In democratic regimes, higher political centralization leads to lower economic decentralization. In autocratic regimes, higher political centralization leads to higher economic decentralization.*

6.3 MEASURES, DATA, AND MODEL

As the literature review illustrates, the main independent variable—the political centralization level—has multiple manifestations, including the direct elections of subnational government officials and the influence the subnational governments can exert on the national policymaking process. Because the theory developed in this dissertation particularly focuses on the national government's political control over the subnational government personnel,

in the following empirical tests, I use the measure that captures this dimension of political decentralization.

In particular, I use the local government index and regional government index measures from the V-Dem Dataset.¹ In the original V-Dem Project, the concept that these two indices measure is *subnational democracy*. According to Project Manager [McMann \(2018, p. 21\)](#),

[t]he subnational government is more democratic if its offices are elected through free and fair elections. This follows from the electoral principle of democracy, and it promotes the participatory principle of democracy by allowing citizens to vote for more officials. It is also important that the elected offices have authority relative to unelected offices and can constrain the actions of unelected officials. This enables elected officials to act on voters' preferences and citizens, through the electoral process, to limit the actions of government.

Based on this concept of subnational democracy, the V-Dem Project aggregates indices for two levels of subnational governments, the regional government index, corresponding to “the second-highest level of government, just below the national government,” and the local government index, corresponding to “the level of government below the regional government” (Coppedge et al., [2018, Codebook](#), pp. 64–65). These two indices are calculated based on the following three indicators: (1) whether there is a regional/local government; (2) whether the regional/local government (including the executive and assembly) is elected; and (3) the relative power of the elected regional/local government.² Both indices are interval measures varying from 0 to 1. According to the codebook, the regional/local government indices get the lowest score when there are no regional/local governments respectively; they get a medium score, when the regional/local governments are elected but the elected regional/local

¹ For the dataset, see [Coppedge, Gerring, Knutsen, Lindberg, Skaaning, Teorell, Altman, Bernhard, Fish, Cornell, Dahlum, Gjerløw, Glynn, Hicken, Krusell, Lührmann, Marquardt, McMann, Mechkova, Medzihorsky, Olin, Paxton, Pemstein, Pernes, von Römer, Seim, Sigman, Staton, Stepanova, Sundström, Tzelgov, Wang, Wig, Wilson, and Ziblatt \(2018\)](#) and [Pemstein et al. \(2018\)](#); for the codebook of the V-Dem Dataset, see [Coppedge, Gerring, Knutsen, Lindberg, Skaaning, Teorell, Altman, Bernhard, Cornell, Fish, Gjerløw, Glynn, Hicken, Krusell, Lührmann, Marquardt, McMann, Mechkova, Olin, Paxton, Pemstein, Seim, Sigman, Staton, Sundström, Tzelgov, Uberti, Wang, Wig and Ziblatt \(2018\)](#); for the methodology, see [Coppedge, Gerring, Knutsen, Lindberg, Skaaning, Teorell, Krusell, Marquardt, Pemstein, Pernes, Stepanova, Tzelgov, Wang, Medzihorsky and Wilson. \(2018\)](#); for the country coding units, see [Coppedge, Gerring, Knutsen, Lindberg, Skaaning, Teorell, Ciobanu and Olin \(2018\)](#); and for the organization and management, see [Coppedge, Gerring, Knutsen, Lindberg, Skaaning, Teorell, Krusell, Olin, Pernes, von Römer and Stepanova \(2018\)](#).

² Because the indicators are based on country experts' evaluations, it is possible that certain country experts consider the economic resources and authority controlled by the regional/local government to be one aspect of the subnational government's relative power. If this is the case, higher values of this indicator are expected to be positively correlated with economic decentralization. This correlation would bias the results in favor of the hypothesis for democracies, but against my main argument for autocracies.

offices are “subordinate to unelected officials at the regional[/local] level perhaps appointed by a higher-level body”; and finally, they have a high score, when the regional/local governments “are elected and able to operate without restrictions from unelected actors at the regional[/local] level with the exception of judicial bodies” (Coppedge et al., 2018, *Codebook*, pp. 48–49).

Conceptualized as the national government’s political control over the subnational governments’ personnel, the level of political centralization is the opposite of the subnational democracy measured by the V-Dem Project: the political centralization level is higher when the subnational democratic level is lower. Particularly, when there is no regional/local government, the political centralization level is the highest; when the regional/local governments are appointed or when they are elected but subordinate to the unelected regional/local officials, the political centralization level is high; and when the regional/local governments are elected and able to operate without constraints from other unelected officials at the subnational levels, the political centralization level is the lowest.

Thus, to measure political centralization levels, I first average the regional and local government indices to calculate the *subnational government index*,³ and then calculate political centralization levels as “ $1 - \text{subnational government index}$.”

The dependent variable, the economic decentralization level, is measured as the ratio of subnational government’s fiscal expenditures over the total government expenditures. This measure has been commonly used in the literature (Arzaghi and Henderson, 2005; Davoodi and Zou, 1998). The data are drawn from the IMF Fiscal Decentralization Dataset released in December 2018 (International Monetary Fund, 2018; Lledó et al., 2018). For this dataset, the IMF calculated fiscal decentralization indicators, based on the IMF *Government Finance Statistics Yearbook 2017* (International Monetary Fund Statistics Dept., 2018). The data cover the period from 1972 to 2016.

In order to test whether the political centralization’s effects depend on regime types, I use the electoral democracy index from the V-Dem dataset.⁴ According to the codebook,

³The *subnational government index* is calculated in the following way: when neither regional government index nor local government index is missing, I calculate the subnational government index as their average. When either one is missing, I use the other index as the subnational government index.

⁴For the references of the V-Dem Project, see Footnote 1.

the electoral democracy index “seeks to embody the core value of making rulers responsive to citizens, achieved through electoral competition for the electorate’s approval under circumstances when suffrage is extensive; political and civil society organizations can operate freely; elections are clean and not marred by fraud or systematic irregularities; and elections affect the composition of the chief executive of the country” (Coppedge et al., 2018, *Codebook*, p. 40). For the following analyses, I reverse the electoral democracy index to calculate an autocracy index, which is “1 – electoral democracy index.” The measure autocracy index is an interval measure varying from 0 to 1. It is 1 when the regime is a highly autocratic system and 0 when the regime is a highly democratic system. The correlation between political centralization and autocracy index in the sample that will be analyzed later in this chapter is 0.73. Hence, the more autocratic regimes tend to be more politically centralized than the more democratic regimes. But these two are different measures and countries that are similarly democratic or autocratic can have different levels of political centralization.

Finally, as the socioeconomic explanations suggest, countries’ fiscal decentralization levels also depend on their sizes, economic development levels, and urbanization levels (Arzaghi and Henderson, 2005; Letelier S., 2005). Thus, I include the following socioeconomic variables as controls: the natural log of a country’s total population; the natural log of a country’s GDP per capita (GDPPC), with the GDPPC’s unit being the constant 2010 USD; urbanization levels, measured by the ratio of a country’s urban population over its total population; and the natural resources rents as a share of GDP. These four variables are drawn from the World Bank Open Data (World Bank, N.d.).

The unit of the following analyses is each country-year. Given the panel data structure, I estimate the correlation between political centralization and fiscal expenditure decentralization with the “hybrid” model, proposed by Bell and Jones (2015). The model takes the following form:

A “Within-Between” Random Effects Model

$$\mathbf{Y}_{it} = \beta_0 + (\mathbf{X}_{it} - \overline{\mathbf{X}}_i)\beta_1 + \overline{\mathbf{X}}_i\beta_2 + \mathbf{U}_i + \epsilon_{it}, \quad (6.1)$$

where \mathbf{Y}_{it} is the fiscal expenditure decentralization level of country i in year t ; β_0 is the common intercept; \mathbf{X}_{it} is the matrix of the independent variables of country i in year t ; $\overline{\mathbf{X}}_i$

is the matrix of the average levels of the independent variables in country i ; β_1 is the vector of the within effect coefficients; β_2 is the vector of the between effect coefficients; \mathbf{U}_i is the vector of residuals of country i ; and ϵ_{it} is the vector of residuals of country i in year t .

Although commonly referred to as the “hybrid” model, it is a random effects model. The model assumes that the two residuals \mathbf{U}_i and ϵ_{it} follow two normal distributions (Bell and Jones, 2015, pp. 142–144). However, it attenuates the unrealistic assumption of the “standard” random effects model that the error terms are uncorrelated with the independent variables, \mathbf{X}_{it} , by including the $\overline{\mathbf{X}_i}$ as the independent variables.⁵ Bell and Jones (2015) refer to this “hybrid” model as the “Within-Between” random effects model. The advantage of the “Within-Between” random effects model is that it enables us to model the between effects, namely the different levels of fiscal decentralization across countries (β_2 in Equation 6.1), which are theoretically important to understand but impossible to estimate with the fixed effects model. Thus, I use this “Within-Between” random effects model to test Hypothesis 4.

The statistical analyses discussed in the next section are based on a sample of 59 countries’ 819 observations. Before I present the regression results, Table 6.1 shows the descriptive statistics of the dependent variable (fiscal expenditure decentralization) and the independent variables, including political centralization levels, the autocratic levels, and the socioeconomic indicators.

The overall mean of the fiscal decentralization level is around 30%, with the maximum value being 81.4% (United Arab Emirates in 2016) and the minimum value being 0.2% (Afghanistan in 2014). The fiscal decentralization variable has an overall standard deviation of 0.166, a significant portion of this variation exists across countries, as the between standard

⁵The standard random effects model refers to the following:

$$\mathbf{Y}_{it} = \beta_0 + \mathbf{X}_{it}\beta_1 + \mathbf{U}_i + \epsilon_{it}.$$

It is often likely that \mathbf{X}_{it} and \mathbf{U}_i are correlated, for instance, when some common unobserved factors contribute to both the \mathbf{X} and \mathbf{U} in country i . This violates the random effects assumption that \mathbf{U}_i is a random draw from a normal distribution and thus is uncorrelated with the predictors. The “Within-Between” random effects model in Equation 6.1 models the heterogeneity among the entities (the i ’s) by including $\overline{\mathbf{X}_i}$. In this way, the “Within-Between” random effects model accounts for the correlation between \mathbf{X}_{it} and \mathbf{U}_i . The new \mathbf{U}_i and the other residual ϵ_{it} can be more reasonably assumed to be uncorrelated with $\overline{\mathbf{X}_i}$ and \mathbf{X}_{it} (Bell and Jones, 2015, p. 143).

Table 6.1. Descriptive Statistics

Variable		Mean	Std. Dev.	Min	Max
Fiscal Decentralization	Overall	0.295	0.166	0.002	0.814
	Between		0.169	0.006	0.802
	Within		0.035	0.099	0.471
Political Centralization	Overall	0.272	0.305	0.004	0.994
	Between		0.329	0.005	0.989
	Within		0.055	-0.030	0.556
Autocracy	Overall	0.284	0.219	0.060	0.905
	Between		0.237	0.086	0.878
	Within		0.052	-0.118	0.633
Ln(Total Population)	Overall	16.394	1.455	12.521	19.594
	Between		1.448	12.629	19.530
	Within		0.050	16.240	16.568
Ln(GDPPC)	Overall	9.471	1.226	5.921	11.425
	Between		1.275	6.231	11.348
	Within		0.153	8.841	10.080
Urban Population Share	Overall	69.917	15.513	22.060	97.919
	Between		17.770	22.342	97.402
	Within		2.243	60.291	78.117
Natural Resources Rents (% of GDP)	Overall	3.852	6.657	0.000	45.434
	Between		6.803	0.000	28.069
	Within		2.714	-10.871	29.872

deviation is as high as 0.169 and the within standard deviation is much lower (0.035).

The overall mean of the autocracy measure is 0.284, meaning the sample is mostly composed of democratic cases. This is partly because democratic countries often have better economic data, on both fiscal decentralization and the socioeconomic variables, than autocratic countries. In this sample, the most autocratic case is United Arab Emirates in 2011, which has an autocracy value of 0.905, while the least autocratic case is United Kingdom in 2012, with an autocracy value of 0.060. The autocracy variable's overall standard deviation is 0.219. Again, it is mainly attributed to the variation across countries, with the between standard deviation being 0.237 while the within standard deviation being 0.052.

The main independent variable, the political centralization level, has an overall mean of 0.272, indicating that this sample overall has a relatively low level of political centralization. The most politically centralized case in this sample is Kazakhstan, with a political centralization level as high as 0.994 from 2000 to 2012. The least politically centralized case in this sample is Switzerland, with a political centralization level as low as 0.004 from 1990 to 2012. The overall standard deviation of the political centralization variable is 0.305, most of the variation again exists across countries.

Because I hypothesize that political centralization has different effects on fiscal decentralization levels in autocracies and democracies, I include an interaction term between political centralization and autocracy index in the model. As discussed in Section 6.2, based on the previous literature on democracies, I hypothesize that political centralization has negative effects on fiscal decentralization levels for democratic regimes, so I expect the coefficient of the political centralization term to be negative (when autocracy index is 0). In the meanwhile, based on the theory developed in this dissertation, I hypothesize that political centralization has positive effects on fiscal decentralization for autocratic regimes, so I expect the interaction term to be positive, and when autocracy index is 1, I expect the marginal effect of political centralization to be positive.

In addition to the previous two political variables, the overall mean of the socioeconomic variables are: 16.4 for $\text{Ln}(\text{Total Population})$, implying a total population of around 13 million; 9.47 for $\text{Ln}(\text{GDPPC})$, implying a GDPPC of around 13,000 in constant 2010 USD; 69.9% for urban population share; and 3.85% for the natural resources rents. Similar to

the political variables, the variations of these socioeconomic variables also mostly lie across countries. The only exception is the natural resources rents, whose within standard deviation is relatively higher.

6.4 MAIN RESULTS AND DISCUSSIONS

Table 6.2. Correlations between Political Centralization and Fiscal Decentralization Levels Conditional on Autocratic Levels

	Fiscal Expenditure Decentralization	
	Within Effects	Between Effects
PC	-0.126*** (0.0297)	-0.458** (0.177)
Autocracy	-0.233*** (0.0474)	-0.192 (0.223)
PC * Autocracy	0.337*** (0.0700)	0.776* (0.337)
Ln(Population)	0.105*** (0.0282)	0.0191 (0.0129)
Ln(GDP/PC)	0.0263** (0.00904)	0.0425 (0.0282)
Urban Population Share	-0.00454*** (0.000652)	0.00126 (0.00160)
Natural Resources	-0.00455*** (0.000447)	-0.000820 (0.00319)
Constant		-0.429 (0.359)
No. of Obs.		819
No. of Groups		59
rho		0.936
Overall R²		0.486
Within R²		0.214
Between R²		0.489

Notes: Standard errors are in parentheses. + $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Table 6.2 shows the results for Hypothesis 4's test. The within coefficient of political cen-

tralization is negative and statistically significant at the 0.001 level. As a highly democratic country moves from complete political decentralization to complete political centralization, its fiscal decentralization level is expected to decrease by 12.6%. The between effects are similar. The coefficient of political centralization is negative and statistically significant at the 0.01 level. Among the highly democratic countries, whose autocracy index is 0, the fiscal decentralization level for a completely centralized political system is expected to be 45.8% lower than a completely politically decentralized system. The substantive effects of political centralization are much stronger for cross-country comparison than within-country differences. This result of a negative correlation in highly democratic regimes is consistent with the conventional wisdom that political centralization has a negative effect on fiscal decentralization levels.

Are autocracies similar or different? At a first glance, the within and between coefficients of the interaction term of political centralization and autocracy index are both positive and statistically significant, suggesting a different pattern in autocracies from democracies.

Figure 6.1. The Marginal Effect of Political Centralization Conditional on Autocracy Index

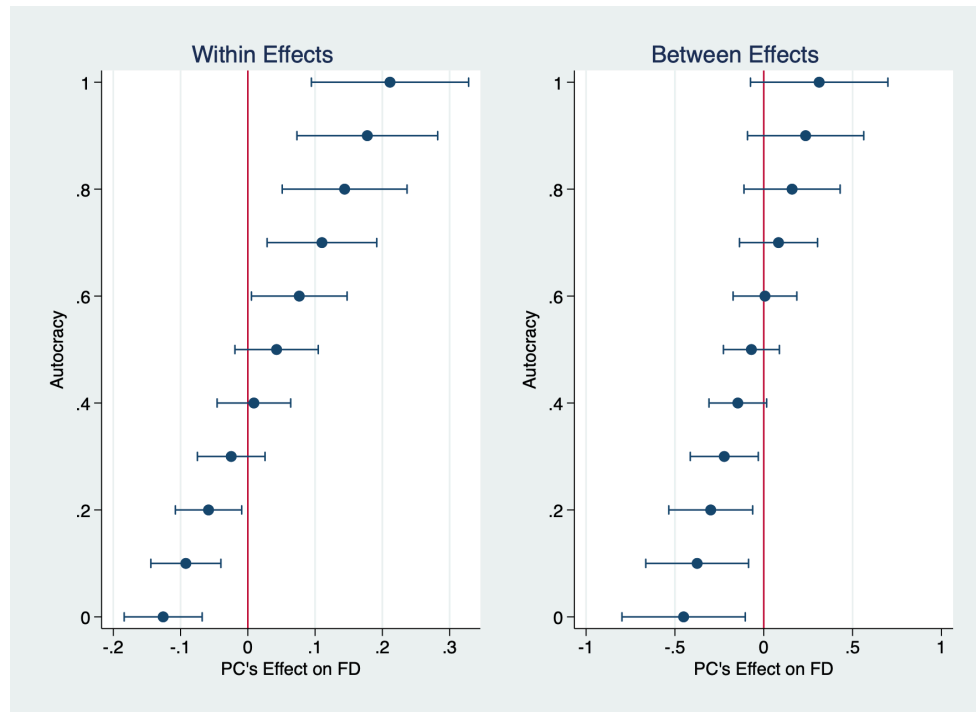


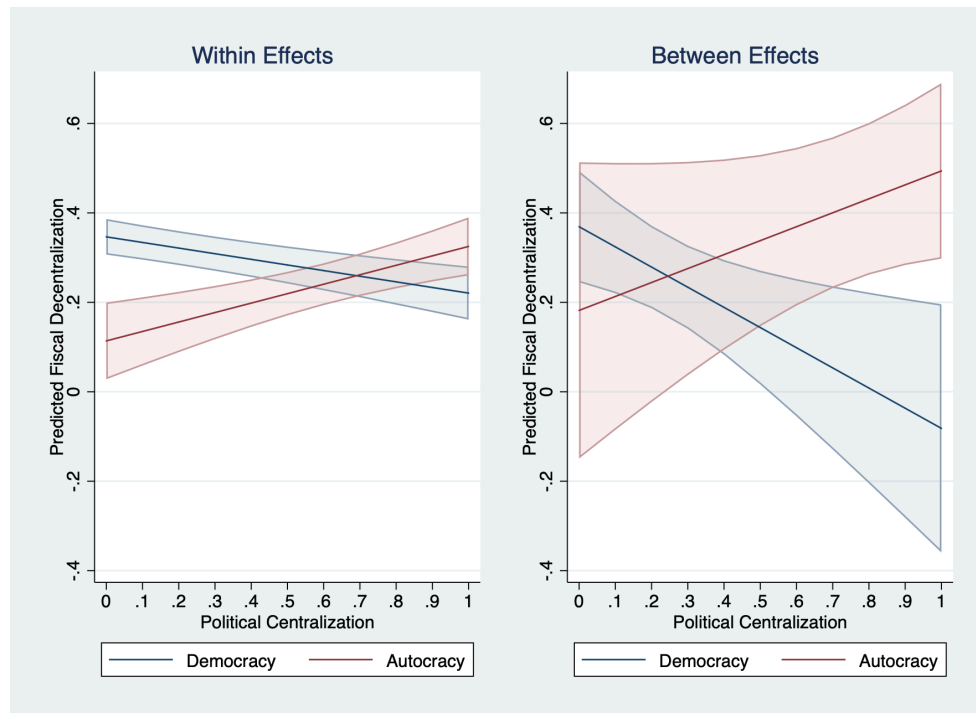
Figure 6.1 plots the marginal effects of political centralization at different autocratic levels. The left panel shows the within effects coefficients of political centralization, conditional

on a country's autocracy index. As discussed before, when a country is highly democratic, namely the autocracy index is 0, the effect of political centralization on fiscal decentralization is negative and statistically significant. As the country becomes increasingly autocratic, namely the autocracy index increases from 0 to 0.3, the negative effect of political centralization on fiscal decentralization shrinks from -0.126 to -0.025 and is no longer statistically significant. In these less democratic cases, an increase in political centralization does not affect its fiscal decentralization level. As the autocracy index continues to increase from 0.3 to 0.6, the effect of political centralization on fiscal decentralization becomes positive (0.076) and statistically significant. The effect stays positive and statistically significant as the autocracy index continues to increase from 0.6 to 1. Thus, in these more autocratic cases, an increase in political centralization is expected to increase the fiscal decentralization level. This pattern supports Hypothesis 4.

The right panel of Figure 6.1 presents the between effects coefficients of political centralization, conditional on countries' autocratic scores. When comparing across highly democratic countries, whose autocracy index is 0, as discussed earlier, a country with a higher political centralization score is expected to have a lower fiscal decentralization level. Similar to the pattern shown in the left panel, as the autocracy index increases from 0 to 0.4, the marginal effect of political decentralization shrinks from -0.45 to -0.14 and is not statistically significant. As the autocracy index continues to increase from 0.4 to 0.7, the marginal effect of political centralization becomes positive (0.08), although it is not statistically significant. Different from the within effects coefficients, the between effects coefficients are not statistically significant as the autocracy index reaches its theoretical maximum. When the autocracy index is 1, the between effects coefficient for political centralization is 0.31, with a p-value of 0.114. Although it is not statistically significant, the size of the coefficient is not small. When comparing across the highly autocratic countries, in this sample on average a country that is more politically centralized is expected to be more fiscally decentralized. Overall, the between effects coefficients lend partial support to Hypothesis 4.

Figure 6.2 shows the results by plotting the predicted fiscal decentralization levels against political centralization for two cases, when the autocracy index is 0 and 1. The left panel shows the within effects of political centralization on fiscal decentralization for a highly

Figure 6.2. The Predicted Fiscal Decentralization Levels Conditional on Autocracy Index



democratic country (marked in blue) and for a highly autocratic country (marked in red). The right panel shows the between effects of political centralization when the pool of countries are highly democratic (marked in blue) and when the pool of countries are highly autocratic (marked in red). The downward blue line shows the negative effects of political centralization on fiscal decentralization for the highly democratic cases and the upward red line shows the opposite pattern for the highly autocratic cases.

Although not central to Hypothesis 4, an interesting finding from the right panel of Figure 6.2 is that for the completely politically centralized systems, autocracy is positively correlated with fiscal decentralization levels and the difference between a highly democratic country and a highly autocratic country is statistically significant. This finding shows that the expectation that “democracies have higher fiscal decentralization levels than autocracies” has its scope conditions, and one of the conditions may be that the level of political centralization cannot be too high.

In sum, the regression results provide support for Hypothesis 4. In particular, the within effects are highly consistent with Hypothesis 4. For a highly democratic regime, its political

centralization and fiscal expenditure decentralization levels are negatively correlated and their correlation is statistically significant. The negative correlation decreases in its magnitude and reverses its sign, as the autocracy level increases. For a highly autocratic regime, its political centralization and fiscal expenditure decentralization levels are positively correlated and the correlation is statistically significant. The between effects are similar, except that the correlation for the highly autocratic regimes is not statistically significant. When comparing across the highly democratic regimes, countries with higher political centralization levels are expected to have lower fiscal decentralization levels. As the regimes become more autocratic, the negative correlation decreases in size and reverses its sign.

6.5 TESTS OF NONLINEAR EFFECTS AND CONDITIONAL EFFECTS

6.5.1 Quadratic Effects

Although I argue that the bargaining logic is less applicable to autocracies than the delegation logic, the bottom-up demands from the subnational governments can exist in autocracies. For instance, in the Chinese case, [Shirk \(1993\)](#) argues that the representation of the subnational governments in the selectorate contributes to the economic decentralization policies in the 1980s, when the regime began the reform and opening up policies under the leadership of Deng Xiaoping. Moreover, as [Díaz-Cayeros \(2006\)](#) has argued, right after the Mexican revolution in the 1920s, state governments were so strong and autonomous that the federal government did not have the capacity to pursue economic centralization policies. These are different scenarios, but they imply that within autocracies, the bottom-up demands exist. How they are expressed and how they shape the final economic decentralization outcomes depend on the political centralization levels.

As discussed in Section [5.5](#) at the end of Chapter [5](#) on Mexico, it is possible that there is a U-shaped relationship between political centralization and economic decentralization levels in autocracies. Specifically, it is possible that when political centralization is low, the national government is politically weak compared to the subnational governments, like the

Mexican case in the 1920s and 1930s, and as a result, the national government lacks the capacity to pursue economic centralization policies, although it may have the incentives to do so according to the delegation logic. Hence, economic decentralization is expected to be high. When political centralization levels are at medium levels, neither low nor high enough, the national government has both the incentives and the capacity to pursue economic centralization policies. As a result, economic decentralization levels are expected to be at their lowest levels. Finally, as political centralization continues to increase, the national government has more and more political control over the subnational governments and is capable to ensure the policy implementation at the subnational levels through political means, the national leaders no longer need to centralize the economic resources and authority at the center. Thus, in these cases, we would also expect a high level of economic decentralization.

To capture the possible U-shaped relationship between political centralization and economic decentralization levels, I add a quadratic term of political centralization and an interaction term of the quadratic term times the autocracy variable. The regression results are presented in Table B1 in the Appendix.

Figure 6.3. The Predicted Fiscal Decentralization Levels Conditional on Autocracy Index

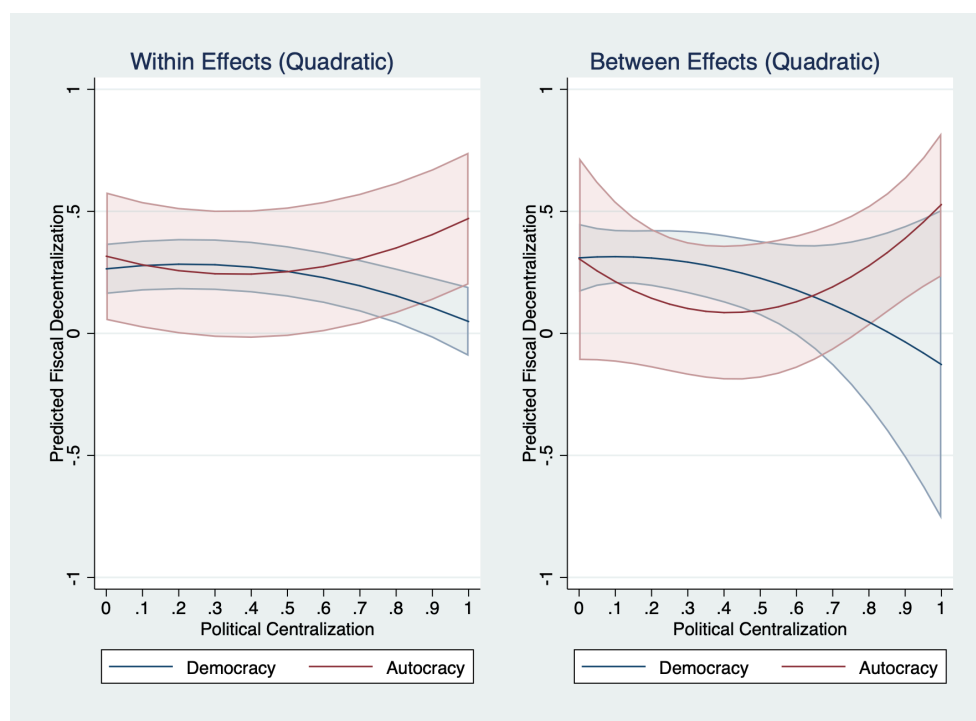


Figure 6.3 plots the predicted fiscal decentralization levels against political centralization

for highly democratic countries (in blue) and highly autocratic countries (in red). The two blue lines in the two panels of Figure 6.3 show curvilinear relationships between political centralization and fiscal decentralization in highly democratic countries. Despite the curvature, the relationships in both panels are mostly negative.

Is there a U-shaped relationship between political centralization and fiscal decentralization in autocracies? The two red lines in the two panels of Figure 6.3 show the predicted fiscal decentralization levels in the highly autocratic regimes. The within effects component supports a U-shaped relationship between political centralization and fiscal decentralization for a highly autocratic regime. In particular, the correlation between political centralization and fiscal decentralization is negative and statistically significant, when political centralization is low. As political centralization increases, fiscal decentralization decreases until it reaches its minimum (when political centralization is 0.36). As political centralization continues to increase, the correlation between political centralization and fiscal decentralization becomes positive and statistically significant.

According to the between effects results, the U-shaped relationship between political centralization and fiscal decentralization is not statistically significant. The red line in the right panel of Figure 6.3 shows the predicted fiscal decentralization levels for autocracies, based on the between effects coefficients. The correlation is still negative when political centralization is low, but it is not statistically significant. Fiscal decentralization reaches its minimum when political centralization is 0.41. As political centralization continues to increase, the marginal effect of political centralization becomes positive and statistically significant.

In sum, for autocracies, the within effects results support a statistically significant U-shaped relationship between political centralization and fiscal decentralization; while the between effects results do not offer strong support for the U-shaped relationship. Overall, the results offer limited evidence for the U-shaped relationship inspired by the Mexican case. Given that the sample contains 59 countries and most of them are democracies, it is possible that the sample size is not large enough to produce statistically significant between effects results for autocracies. Hence, future research can continue to explore the U-shaped relationship in autocracies with larger samples.

6.5.2 Conditional Effects

In addition to the quadratic effects, I also test political centralization's effects conditional on the socioeconomic factors. According to the economics literature, socioeconomic factors, such as the size of a country and its economic development level, determine an optimal economic decentralization level, at which level a relatively high economic efficiency can be achieved. Building on this literature, the model developed in Chapter 2 predicts that the socioeconomically optimal economic decentralization level (the x_0 term in the model) affects whether or not the political mechanism between political centralization and economic decentralization is activated and if activated, to what degree political centralization affects fiscal decentralization.

For a small and homogeneous country, its socioeconomically optimal economic decentralization level is expected to be low, so that the political mechanism would not be activated, in the sense that regardless of its political centralization level, the economic resources and authority are expected to be centralized. Thus, this country's small size is expected to lessen the effects of political centralization on economic decentralization. This is one of the empirical implications of the theoretical model presented as Hypothesis 3 in Chapter 2. In contrast, if a country is large and has heterogeneous regions and population, the economics literature predicts that the country has a high socioeconomically optimal economic decentralization level. It is in such countries that political centralization is expected to have a stronger effect on economic decentralization, because now the national government can have different preferences toward economic decentralization, influenced by its political control over the subnational government officials. In the model, this condition implies a higher x_0 that makes x_I higher and allows political centralization to affect the equilibrium economic decentralization level (recall Figure 2.5 in Chapter 2).

Therefore, I expect the effects of political centralization on economic decentralization to be conditional on the socioeconomic factors in autocracies. When the socioeconomic factors are conducive for a higher socioeconomically optimal economic decentralization level (x_0), such as the country is large or is economically developed (Arzaghi and Henderson, 2005), I expect the positive effects of political centralization on economic decentralization to be

stronger.

Similar to autocracies, it is reasonable to expect that socioeconomic factors can moderate the effects of political centralization in democracies as well. One mechanism is through altering the subnational governments' bottom-up demands. For instance, in a small, underdeveloped, and homogeneous country, we can expect that the subnational governments would lack the incentives to demand more economic resources and authority, than their counterparts in a large, developed, and heterogeneous country. Thus, in a country with a low socioeconomically optimal economic decentralization level, we can expect the economic decentralization level to be low, regardless of its political centralization level. On the other hand, in those democracies with high socioeconomically optimal economic decentralization levels, I expect the negative correlation between political centralization and economic decentralization to be strong.

To test whether the effects of political centralization are conditional on the socioeconomic factors and the autocracy levels, I include triple interaction terms among political centralization, autocracy, and the socioeconomic variables. The regression table is presented as Table B2 in the Appendix.

In the following discussions, I mainly focus on interpreting results with regard to two socioeconomic factors, a country's population size and its economic development level, because the previous literature has a relatively strong expectation about how they affect a country's socioeconomically optimal economic decentralization level (x_0). Specifically, the larger a country is and the more economically developed the country is, the higher optimal economic decentralization level the country has.

In addition, I only focus on discussing the between effects results, because the within effects component cannot meaningfully capture how these two socioeconomic factors affect the impacts of political centralization on fiscal decentralization. The modeling assumption of the within effects component treats the unit effects as nuisance and removes them before the estimation—in this hybrid model by including the mean of each unit as other independent variables. On the other hand, the above two socioeconomic factors, such as a country's size and its development level, tend to be stable within a country (see Table 6.1 for the descriptive statistics). By removing the unit effects, the within effects component essentially loses its

capacity to model the effects of these relatively stable socioeconomic factors.

For both the population size and the economic development level, the between effects results confirm the expectation that political centralization's effects on fiscal decentralization are stronger in countries with higher socioeconomically optimal economic decentralization levels, for both autocracies and democracies.

Figure 6.4. The Predicted Fiscal Decentralization Levels and Marginal Effects of Political Centralization Conditional on Autocracy Index and Total Population (Between Effects)

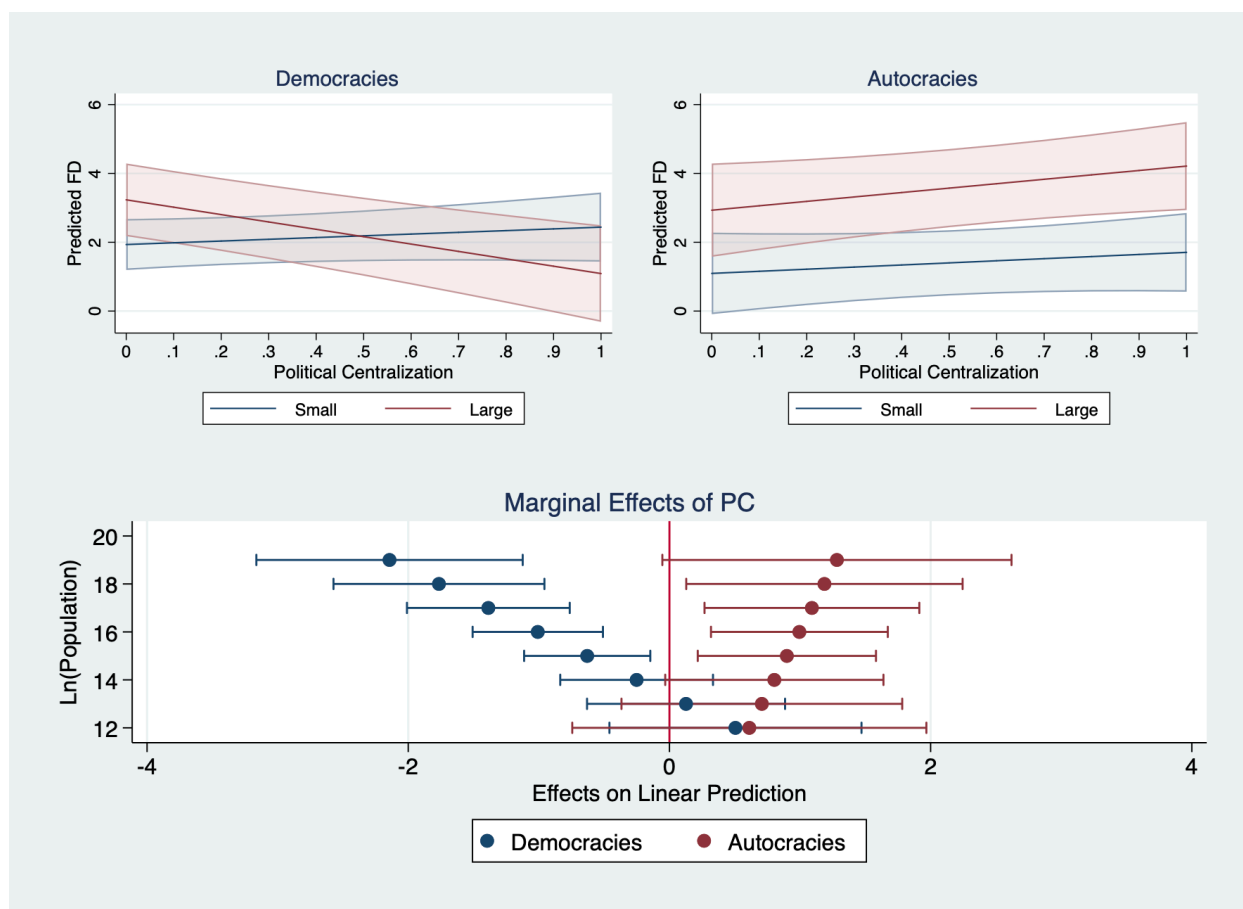


Figure 6.4 shows how political centralization's effects are conditional on the autocratic levels and the population sizes. The top part shows the predicted fiscal decentralization levels against political centralization levels for democracies (on the left) and autocracies (on the right), conditional on the population sizes. The blue line in both panels shows the predicted fiscal decentralization levels for countries with small population sizes (when the total population is around 162,764) and the red line shows the predicted fiscal decentralization levels

for countries with large population sizes (when the total population is around 178 million). The sizes are selected based on the smallest and largest cases in this sample. The bottom part shows the marginal effects of political centralization conditional on regime types and the population sizes.

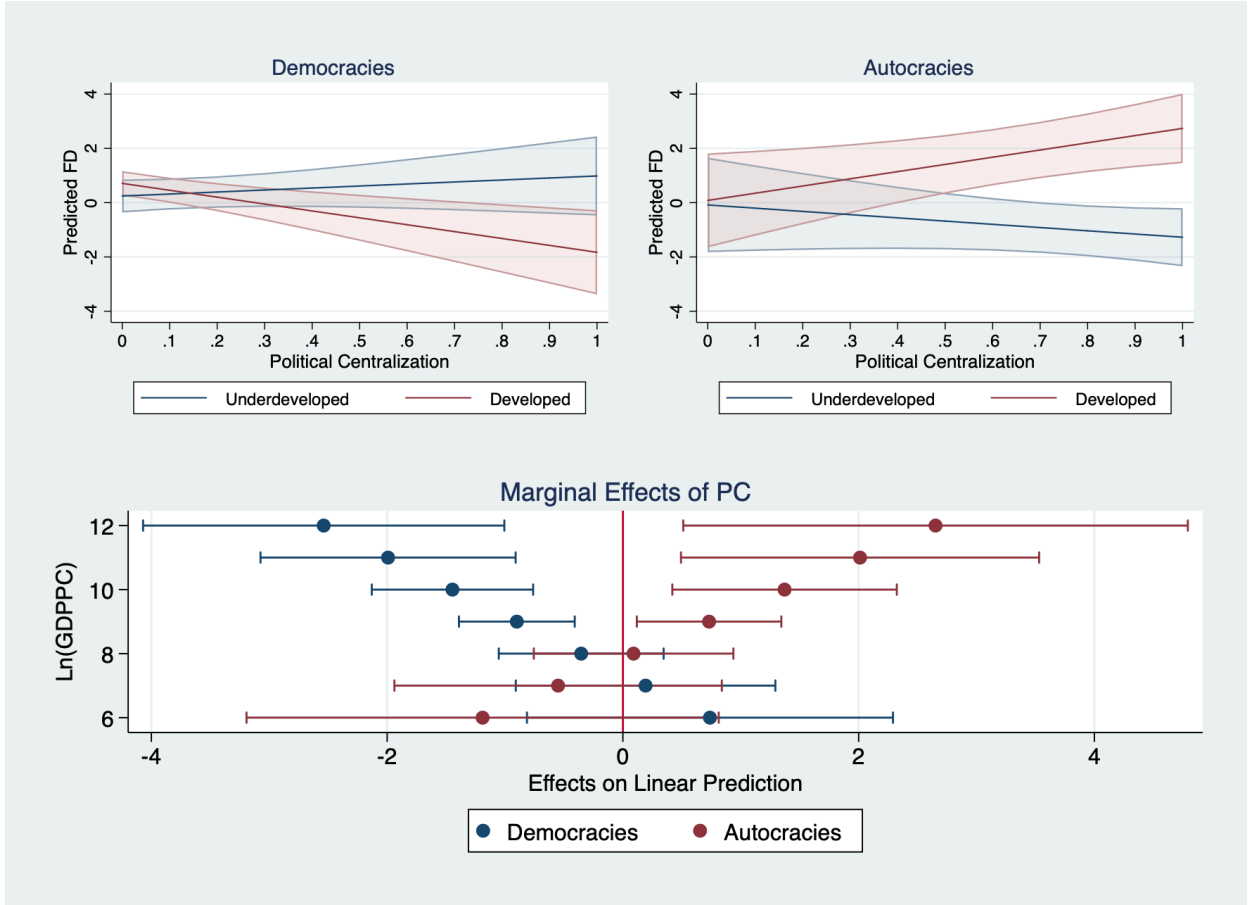
When we compare across small countries, the effects of political centralization on fiscal decentralization are small and not statistically significant. As countries' sizes become larger, the marginal effects of political centralization in autocracies are positive and become statistically significant, while the marginal effects of political centralization in democracies are negative and become statistically significant. The differences between the marginal effects of political centralization in autocracies and democracies are also statistically significant for large countries.

This means that among large countries, the more politically centralized autocracies tend to have higher fiscal decentralization levels than the less politically centralized autocracies; while the more politically centralized democracies tend to have lower fiscal decentralization levels than the less politically centralized democracies. This is consistent with the theoretical expectation that political centralization's effects (positive in autocracies and negative in democracies) are stronger in countries with higher socioeconomically optimal economic decentralization levels, in this case, countries with larger population sizes.

Figure 6.5 shows how political centralization's effects are conditional on the autocratic levels and the economic development levels. The figure's organization is similar to the previous one. The blue line in the top two panels show the predictions for the underdeveloped countries, with the GDPPC being around 403 in constant 2010 USD, and the red line in the top two panels show the predictions for the developed countries, with the GDPPC being around 163,000 in constant 2010 USD. These values are chosen based on the minimum and maximum of the GDPPC in this sample.

The results for the economic development levels are again consistent with the theoretical expectation. For the underdeveloped countries, the effects of political centralization on fiscal decentralization are small and not statistically significant for either democracies or autocracies. As countries become more developed, the political centralization's effects become stronger. Among the developed countries, more politically centralized autocracies tend

Figure 6.5. The Predicted Fiscal Decentralization Levels and Marginal Effects of Political Centralization Conditional on Autocracy Index and GDP Per Capita (Between Effects)



to have higher fiscal decentralization levels than the less politically centralized autocracies; while more politically centralized democracies tend to have lower fiscal decentralization levels than the less politically centralized democracies. The results again support that the political centralization's effects are stronger in countries with higher socioeconomically optimal economic decentralization levels.

In sum, the results support the theoretical expectation that the effects of political centralization are stronger in countries with higher socioeconomically optimal economic decentralization levels, such as the large and economically developed countries. For democracies, the effects are negative and stronger; while for autocracies, the effects are positive and stronger.

6.6 CONCLUSIONS

The top-down delegation logic of the economic (de)centralization process in autocracies developed and evaluated in the previous chapters predicts that political centralization can lead to economic decentralization policies. In contrast, using a bargaining framework, the previous literature on democracies often argues that political centralization leads to lower economic decentralization. With the expectation that the delegation logic is more relevant for autocracies and the bargaining logic is more relevant for democracies, this chapter tests whether the effects of political centralization on fiscal decentralization are different in autocracies from its effects in democracies, using a sample of 59 countries over the period from 1972 to 2016.

The statistical results support the chapter's main hypothesis. According to the within effects results, an increase in political centralization in a democracy is expected to reduce its fiscal decentralization level but increase fiscal decentralization in an autocracy. Comparing across countries, democracies with higher political centralization are expected to have lower fiscal decentralization; while autocracies with higher political centralization in the sample on average have higher fiscal decentralization, although this effect is not statistically significant.

In addition, the Mexican case discussed in Chapter 5 suggests that the final economic decentralization level not only depends on the national government's incentives but also on

its capacity to reach that level. In particular, there may be a U-shaped relationship between political centralization and fiscal decentralization in autocracies. The statistical evidence is supportive but limited. The within effects results support a statistically significant U-shaped relationship in autocratic regimes, while the between effects results do not support a statistically significant U-shaped relationship. It is possible that the sample of 59 countries, most of which are democracies, is not large enough to produce statistically significant between effects results for autocracies. Future research can continue to explore the possible U-shaped relationship for autocracies.

Finally, the theory in Chapter 2 also predicts that the effects of political centralization are conditional on the socioeconomic factors. Particularly, the effects are predicted to be stronger in countries with higher socioeconomically optimal economic decentralization levels. The statistical evidence confirms this theoretical prediction. For the small and economically underdeveloped countries, the correlation between political centralization and fiscal decentralization levels is weak and not statistically significant for both democracies and autocracies. But for the large and economically developed countries, political centralization is negatively correlated with fiscal decentralization in democracies and positively correlated with fiscal decentralization in autocracies. This implies that the different patterns between democracies and autocracies are more salient for the large and more developed countries than for the small and less developed countries.

All in all, the statistical results provide strong supportive evidence for the delegation logic in autocracies, shown by the positive correlations between political centralization and fiscal decentralization, which are opposite from the pattern in democracies. This suggests that the two historical cases of China and Mexico are not singular instances. The positive effects of political centralization on economic decentralization are relatively common in autocracies.

7.0 CONCLUSIONS

Decentralization is widely considered to be critical for a country's quality of governance. Especially since the international development agencies began to support the decentralization efforts in developing countries in the 1980s, scholars in both economics and political science have studied this topic extensively. However, the scholarly views on the impacts of decentralization have been mixed. On the positive side, the early fiscal federalism literature ([Tiebout, 1956](#); [Oates, 1972](#)) emphasizes that fiscal decentralization can increase overall economic efficiency. The more recent "market-preserving federalism" literature contends that federalism can limit the predatory behavior of the state and can therefore foster economic growth ([Qian and Weingast, 1996, 1997](#)). However, these positive views of fiscal decentralization are disputed on multiple grounds. [Treisman \(2006\)](#) argues that although fiscal decentralization may reduce the local governments' predatory behaviors, it could make the central government more predatory. Thus, the overall impacts of fiscal decentralization on economic performance are indeterminate. [Rodden and Rose-Ackerman \(1997\)](#) emphasize that the benefits promised by the "market-preserving federalism" require the right political incentives of the local governments, which are often not present in either democracies or authoritarian systems.

To evaluate the impacts of economic decentralization on a country's economic performance needs a better theoretical understanding of the political contexts in which the economic decentralization operates. This dissertation has tackled one theoretical question: what political conditions explain economic decentralization policies in autocracies?

I argue that in autocracies, a high level of political centralization can facilitate the economic decentralization process, by increasing the national government's trust in the sub-national government officials and making the national government more willing to grant the

subnational governments more economic resources and authority to achieve higher economic efficiency. Previously the literature on democracies expects the opposite, namely a high level of political centralization results in a low level of economic decentralization. The cause for these different effects of political centralization in autocracies and democracies, I contend, is the distinct policymaking processes in autocracies and democracies. The policymaking process in autocracies is often a top-down process which follows the delegation logic, while the policymaking process in democracies often follows the bargaining logic. These different logics can explain why high levels of political centralization lead to economic centralization policies in democracies but economic decentralization in autocracies.

Understanding the political conditions of economic decentralization not only can elucidate the economic decentralization process per se, which is an important subject in itself, but also can disentangle the connections between political conditions and economic decentralization policies, explicate the causes of the political incentives of different levels of the governments, and finally help us to better understand the impacts of the economic decentralization policies. In this concluding chapter, I first summarize the findings of this dissertation and then discuss the implications and open questions for future research.

7.1 CENTRALIZED DECENTRALIZATION

Because of the more prevalent top-down policymaking process in autocracies, a high level of political centralization can increase a national government's incentives to pursue the economic decentralization policies, while a low level of political centralization can have an opposite effect.

Chapter 2 presents the theory that links political centralization and economic decentralization policies in a different way than the theories developed in the democratic contexts. The previous theories developed in democracies ([Willis, Garman and Haggard, 1999](#); [Beer, 2004](#); [Falleti, 2010](#)) often consider the economic decentralization policies as outcomes of a bargaining process, where the national government prefers more economic centralization while the subnational governments prefer more economic decentralization. Under this as-

sumption, a high level of political centralization implies a weak bargaining position of the subnational governments and thus inhibits the economic decentralization process. This view that emphasizes the bottom-up pressure from the subnational governments is valid. Scholars such as [Shirk \(1993\)](#) and [Liu et al. \(2015\)](#) also argue that the economic decentralization process in China in the 1980s was resulted from the subnational governments' bottom-up demands. However, many authoritarian systems often lack the representative institutions, where the bargaining between the national government and subnational governments take place in democracies. Moreover, it is not always possible for the subnational governments to confront the national leadership to demand more economic authority and resources, if the authoritarian national leadership opposes economic decentralization. Then, why do some of these regimes pursue the economic decentralization policies while others become more economically centralized?

The model in Chapter 2 theorizes the incentives of the national government to pursue economic decentralization policies from a top-down perspective. It directly answers the question of why some authoritarian regimes pursue economic decentralization policies even without bottom-up pressure from the subnational governments, while others do not. In particular, this model identifies the relevant political factors that contribute to whether the authoritarian national government would prefer a high or low level of economic decentralization. Such political factors include the levels of political centralization, how ideological the national government is with regard to prioritizing the implementation of their preferred economic policies, and how developmental the national government is.

In the case study chapters, I select and compare two large party-based authoritarian regimes with ideological and developmental national governments, which are the postrevolutionary regimes of China and Mexico. I test whether and how the levels of political centralization affect the economic decentralization policies. The model in Chapter 2 shows that the level of political centralization, referring to the degree of the national government's control over the subnational governments' personnel, affects two political factors: the reward-punishment mechanism and the policy preference divergence between national and subnational governments. The ratio of these two factors constitute the subnational government's deviation threshold, which refers to the maximum level of economic decentralization that

the national government can grant without triggering the subnational government's policy deviation. The deviation threshold in turn changes the national government's willingness to decentralize the economic resources and authority. For the developmental and ideological national governments, the model predicts that a high deviation threshold leads the national government to prefer a relatively high level of economic decentralization, and a low deviation threshold makes the national government prefer a low level of economic decentralization.¹

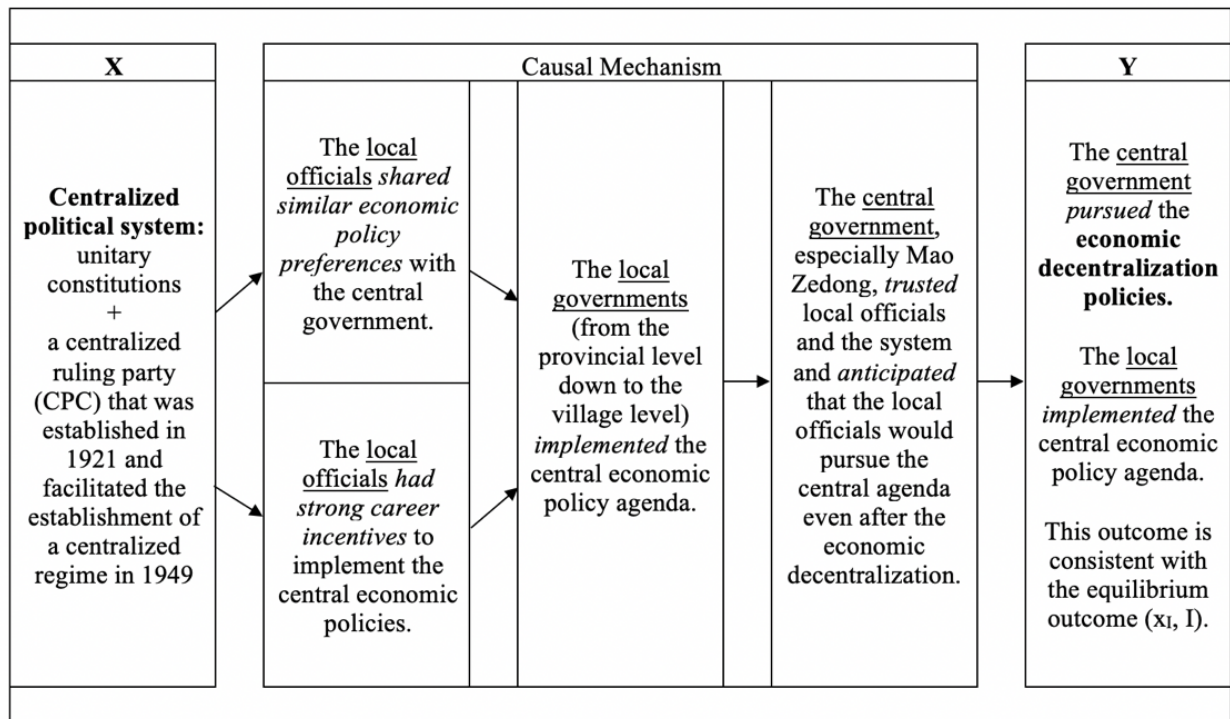
The game-theoretical model not only establishes a clear and rigorous theoretical framework to analyze the interaction among the socioeconomic and political factors, it also facilitates the conceptualization of the causal mechanisms linking the level of political centralization and the economic decentralization policies. In addition to the several other interesting results, the model naturally generates the concept of the subnational government's deviation threshold as a ratio of the reward-punishment mechanism and the policy preference divergence. It is this concept of the deviation threshold that forms an essential link on the causal chain between political centralization levels and economic decentralization policies.

To what degree can the theoretical model explain the economic decentralization processes? Chapters 4 and 5 test the theory combining the method of difference and the theory-testing process-tracing method. Figures 7.1 and 7.2 present the process-tracing results in China and Mexico respectively.

Summarized in Figure 7.1, the PRC regime was highly centralized politically before the economic decentralization process during the Great Leap Forward in 1958. The high level of political centralization can be attributed to two institutional sources, namely the unitary constitutions (the 1949 Common Program and the 1954 Constitution) and the centralized ruling party, the CPC, which led the regime establishment and consolidation process. The CPC's highly disciplined party organization, its tight control over the armed forces, and the central leadership's strong ideological control over the members facilitated the rapid consolidation process of the PRC regime from 1949 to 1952. As a result, the postrevolutionary

¹The national government's preferred economic decentralization level also depends on the socioeconomic conditions. The theory does not contend that the national government's preferred economic decentralization level and the deviation thresholds follows a strictly monotonic relationship, see Figure 2.5. Particularly, there is an upper limit of the national government's preferred economic decentralization level. Once the subnational governments' deviation threshold exceeds the upper limit, the national government's preferred economic decentralization stops increasing with the deviation thresholds.

Figure 7.1. The Causal Mechanism between Political Centralization and Economic Decentralization in China



regime also inherited the centralized structure of the CPC.

The centralized political system allowed the central government not only to impose the like-minded personnel to local governments' leadership positions, but also to replace the more independent-minded local officials with the like-minded ones through political campaigns, such as the anti-localism movement. In addition, the centralized political system also created strong career incentives for the local officials to implement the central economic policy agenda. The CPC's heavy emphasis on Party discipline, the formal setup of the disciplinary organs in the CPC, and the less formal mechanism of periodic movements and purges all strengthened the central government's reward-punishment mechanisms. These two factors together mean that the local governments in China during the 1950s had very high deviation thresholds and would implement the central government's economic policy agenda even with a relatively high level of economic decentralization.

Consequently, the local governments' behaviors during this time period confirms that the local officials indeed implemented the central economic policy agenda. The case of Guangdong Province shows that even though the CPC had had very weak presence prior to 1949, the local officials still faithfully implemented the land reform policies. The evidence from Mei Xian (County) and Qiaoxiang Village illustrates that the centralized system was so effective that even the officials at the grass-roots levels carried out the radical economic policies made by the central government.

Under these conditions, the central leaders, particularly Mao Zedong, trusted both the local officials, who had already survived waves of screening in the series of political movements, to share their economic policy preferences, and the capacity of the system to continuously screen and select the loyal local leaders. They anticipated that the local officials would follow the central economic policy agenda after the economic decentralization. Given that in this historical context the central leaders also had strong desires to pursue economic development and perceived the centralized economic structure would impede China's development, the central government had a strong desire to pursue the economic decentralization policies.

As a consequence, the central government decentralized economic resources and authority to the local governments during the Great Leap Forward. However, the economic decentralization policies did not make local governments more responsive to local needs. Instead, the

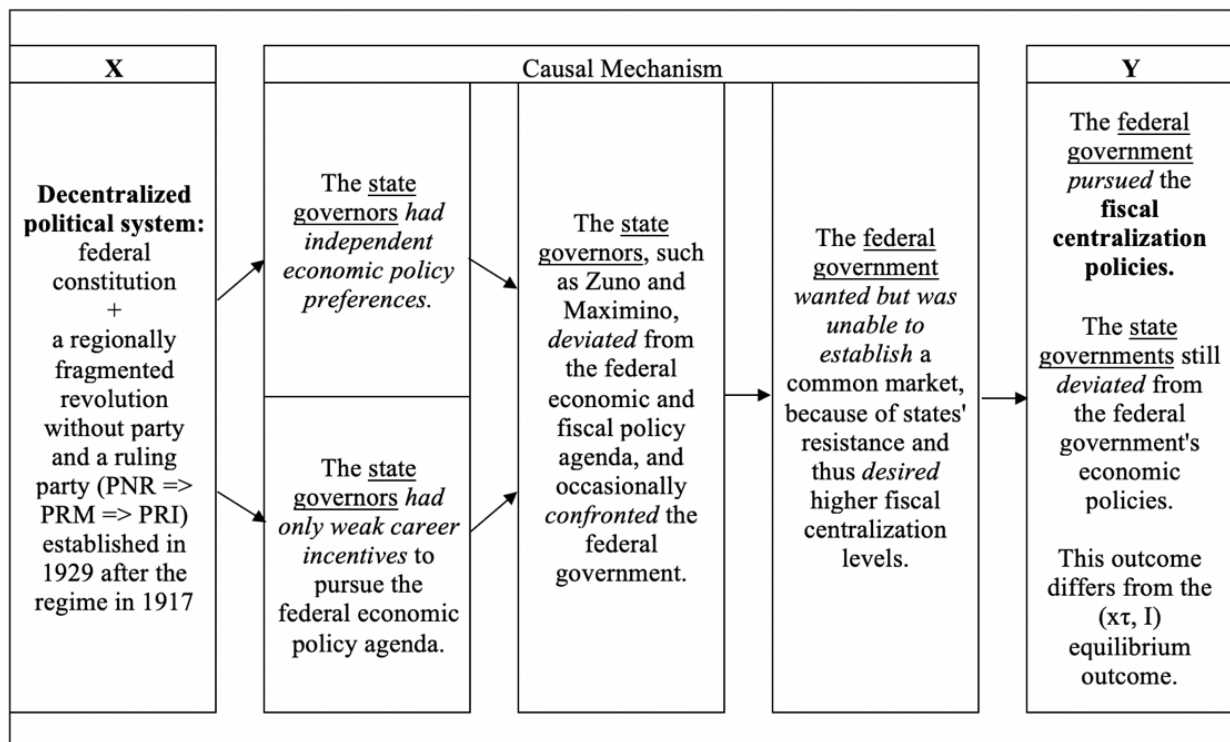
local governments competed with each other to reach the high targets set by the central government, resulting the economic disaster in the Great Leap Forward. This case shows that the political centralization level was so high that it sustained high deviation thresholds for the local governments. Despite an increase in the economic decentralization level, the historical experience suggests that it did not surpass the local governments' deviation thresholds.

The case of the economic decentralization process during the Great Leap Forward is consistent with the theoretical equilibrium outcome (x_I, I) , presented in Section 2.5.2 of Chapter 2. Under the developmental and ideological national government, when the subnational government's deviation threshold is high enough, the national government would set the economic decentralization level at a relatively high level (determined by the socioeconomic factors); while the subnational government would still implement the national economic policy agenda.

The postrevolutionary regime in Mexico followed the opposite path. Summarized in Figure 7.2, the Mexican regime was highly decentralized from 1917 to 1948. The federal government had much weaker control over the state governors' personnel. In addition to having a federal constitution, the regionally fragmented revolutionary process also contributed to the high level of political decentralization. In Mexico, the revolutionary wars were fought among regional armies without a centralized authority. As a result, there was no centralized authority that was able to establish a centralized regime in 1917. Instead, the postrevolutionary political system was dominated by the regional *caudillos*, many of whom had military background and rose to power through fighting the revolutionary wars (Figure 5.2). Although during the three decades from the 1920s to the 1940s, the regime became consolidated and more centralized politically, partly due to the establishment and restructuring of the ruling party, by the late 1940s the federal government had not gained sufficient political control over the state governors so that it could trust the state governments with economic resources.

Due to the relatively high level of political decentralization, the state governors often had their own economic policy preferences that were different from the federal officials'. The state delegates' voting patterns in the First and Second National Tax Conventions in 1925 and 1933 respectively, as well as the ideological gaps between the presidents and

Figure 7.2. The Causal Mechanism between Political Decentralization and Economic Centralization in Mexico



the state governors they nominated from 1934 to 1952 all confirm a high level of policy preference divergence between the federal and state governments. The evidence shows that over time, as the political decentralization level decreased during the three decades, the policy preference divergence also decreased. However, the level of political decentralization was so high in the 1920s that despite the political centralization process, the system by the late 1940s remained more politically decentralized than the Chinese system. For instance, the leftist governors nominated by the rightist President Alemán (1946–1952) constituted 13.95% of all governors he dominated. In the meanwhile, the state governors also lacked strong career incentives to implement the federal economic policy agenda, due to the relatively weak reward-punishment mechanisms of the federal government. In the 1920s, the federal government, even the heavy-handed President Calles, could only remove the state governors who were politically vulnerable, while leaving the strong *caudillos* untouched. In the 1940s, although the federal government gained more political authority to remove a state governor, the authority was limited and was not used to remove governors who implemented different economic policies but governors who were unpopular in the states, or being corrupt and incompetent. The state governors' independent economic policy preferences and lack of career incentives to pursue the federal economic policy agenda together constituted their low deviation thresholds, meaning that even a low level of economic decentralization would trigger them to deviate from the federal government's economic policy agenda.

As expected, the state governments indeed deviated from the federal economic policy agenda. For instance, Governor Zuno of Jalisco (1923–1926) resisted the federal government's expansion in Jalisco and adopted a more radical policy position than President Calles. Calles attempted to remove Zuno but encountered strong pushbacks. Zuno strategically resigned and remained influential in the state after his resignation. As a conservative governor, Maximino of Puebla (1937–1941) also implemented policies that went against the progressive federal economic policy agenda under President Cárdenas, especially in terms of the land reform issue. In addition, the state governments also engaged in fiscal policy deviations. Despite the federal government's desire to establish fiscal unity and create a common national market, the states continued with their local protectionist fiscal behaviors that impeded the market integration. The state governments and their delegations even openly disagreed with

the federal agenda and disobeyed the federal fiscal policies occasionally. Again, there was a trend that the state governments became less confrontational and more tactful when dealing with the federal government over time, consistent with the political centralization process. However, by the 1940s, the evidence shows that the state governments still deviated from the federal government's economic policy agenda.

Under these circumstances, although the federal government in Mexico was more pragmatic than the Chinese central government, it was still frustrated by its inability to rein in the state governments' policy deviations and to establish a common national market. At the same time, the federal government also did not perceive the high level of fiscal decentralization to be efficient. In the eyes of the federal government in that period, the high level of fiscal decentralization implied fiscal anarchy and disorder; while only the federal government could establish fiscal order and simplicity. As a result, the federal government had a strong desire to implement the fiscal centralization policies.

The federal government began the fiscal centralization efforts in the 1920s and the fiscal centralization process continued and peaked in the late 1940s under President Alemán. Due to the states' strong resistance against the fiscal centralization policies, the initial fiscal centralization efforts in the 1920s did not immediately succeed. The federal government then adopted a gradual approach by federalizing the excise taxes, one industry at a time. This approach proved successful and the fiscal centralization level gradually increased from the late 1920s to the early 1940s. The Alemán administration aimed to institutionalize the centralized fiscal system and established the national sales tax in the late 1940s to solve the fiscal fragmentation problem once and for all. But because the political decentralization remained relatively high in the 1940s, the states were still able to resist adopting the national sales tax system and continued to deviate from the federal fiscal policy agenda.

The case of the fiscal centralization process in Mexico from the 1920s to the 1940s is different from the theoretically predicted equilibrium outcome (x_τ, I) , discussed in Section 2.5.2 of Chapter 2. The model predicts that under the ideological and developmental national government, a high level of political decentralization would result in the federal government setting the economic decentralization level at the deviation threshold, which is lower than the optimal level determined by the socioeconomic factors, and the state governments would

implement the federal economic policies if the economic decentralization level is at the deviation threshold. In the case of Mexico, the federal government was not able to set the fiscal decentralization level at the state governments' deviation thresholds. It was not a lack of willingness but a lack of capacity to achieve that low level of fiscal decentralization. Thus, the state governments continued deviating from the federal economic policies. The case did not reach the predicted equilibrium outcome.

That the case did not produce the equilibrium outcome does not disconfirm the theory. On the one hand, the federal government's strong incentives to pursue a low level of fiscal decentralization and its fiscal centralization policies confirm the theoretical prediction that the high level of political decentralization increased the federal government's willingness to pursue fiscal centralization policies. On the other hand, the case indeed shows one of the limitations of the theoretical model that the final economic decentralization levels not only depend on the national government's willingness, but also depend on its capacity to achieve its desired outcome. The Mexican federal government had the incentives but lacked the capacity.

The Mexican case inspires a possible U-shaped relationship between political centralization and economic decentralization in autocracies. When political centralization is low, the national government is expected to have strong willingness to centralize economic resources and authority but lacks the capacity to achieve the goal. Hence, economic decentralization is expected to be high. When political centralization is at a medium level, the national government is expected to have both the willingness and capacity to achieve economic centralization, and economic decentralization is expected to be low. When political centralization is high, the national government trusts the subnational governments more and becomes more willing to decentralize economic resources and authority to subnational governments. Therefore, economic decentralization is expected to be high again. This U-shaped relationship is tested empirically in Section 6.5 of Chapter 6 and the statistical evidence offers partial support.

Table 7.1 juxtaposes the relevant socioeconomic and political conditions in the two cases, which refines Table 3.2 by adding the findings from Chapters 4 and 5. As discussed in Chapter 3, the postrevolutionary regimes of China (since 1949) and Mexico (since 1917)

Table 7.1. Comparing China and Mexico

		China (1949–1962)	Mexico (1917–1948)	NG's Expected Incentives to Pursue Economic Decentralization
Similar Conditions	Area (km²)	9,572,900	1,964,375	Strong in both countries
	Population	546,815,000 (1950)	14,970,000 (1913)	Strong in both countries
	Urban Population Share	11.1% (1949)	12.9% (1910)	Weak in both countries
Different Conditions	GDPPC (1990 International Dollars)	552 (1950)	1,732 (1913)	Stronger in Mexico
	Economic System	Command economy => mixed economy	ISI => neoliberal economy	Stronger in Mexico
Different Conditions (new)	Political Centralization Levels	High	Low	Weaker in Mexico
	Constitutional Forms	Unitary	Federal	
	Sources			
	Ruling Party	Centralized Marxist- Leninist CPC	Territorially-based PNR (1929--1938) Corporatist PRM (1938--1946) Corporatist PRI (1946--)	
	Regime Establishment	Led by the centralized ruling party	Before the ruling party's establishment	
	Results			
	SNG's Deviation Thresholds	High	Low	
	SNG's Behaviors	Implemented National Policies	Deviated from National Policies	
Different Outcomes	NG's Trust in SNG	High	Low	Weaker in Mexico
	Policy Outcomes	Economic Decentralization Policies	Economic Centralization Policies	

Notes: for the following rows, population sizes, urban population shares, and GDPPC, the years to which the statistics correspond are in parentheses.

Sources: See Table 3.2.

shared similar socioeconomic conditions, such as the large sizes in terms of their geographic areas and population and their urbanization levels. They differed in their development levels and economic systems. But according to the previous theories, the differences in these two factors gave the federal government in Mexico a stronger incentive to pursue economic decentralization policies than the Chinese central government.

I argue that the reasons for the two postrevolutionary regimes' distinct paths—Mexico became increasingly fiscally centralized from the 1920s to the 1940s while China pursued the economic decentralization policies in the late 1950s—lie in their levels of political centralization.

Shown in Table 7.1, the postrevolutionary political regime of the PRC was highly centralized, while the postrevolutionary political system in Mexico was highly decentralized. Their different political centralization levels had their origins not only in their respective constitutional designs, with China having a unitary system while Mexico having a federal system; but also in their respective revolutionary processes preceding their regimes.

In particular, the Chinese revolution was won by the centralized Marxist-Leninist CPC, which was established in 1921 and experienced significant political centralization since the 1920s. By the time the PRC regime was established in 1949, the CPC had already obtained a highly centralized organization. It was the centralized ruling CPC that led the regime establishment and consolidation process and as a result the PRC regime obtained a highly centralized political structure.

In contrast, the Mexican revolutionary war was fought among regionally-based revolutionary forces without a strong centralized authority, particularly there was not a political party that led or won the revolution. Instead, the revolution was won by a loosely organized faction, the Constitutionals. The regions in the Mexican postrevolutionary regime, as a consequence, were controlled by the regional strongmen who could easily challenge the political authority of the center while the center had very weak control over the regional leaders in the 1920s. In fact, the ruling party was initially established by President Calles in 1929, the PNR, as a territorially based institution to internalize the conflicts among the powerful regional leaders. Over the three decades studied in this dissertation, the Mexican regime experienced regime consolidation and political centralization. The ruling party was reorga-

nized several times from the territorially based organization finally to a corporatist party, became more centralized, and was renamed to PRM in 1938 and to PRI in 1946. However, the regime was so regionally fragmented in the 1920s that after three decades of the political centralization process, the Mexican regime was still much more politically decentralized in the 1940s than the Chinese regime under the CPC in the 1950s.

The comparison between China and Mexico show the significant impact of the sequential order of the ruling party's establishment and the regime establishment on the level of political centralization of the postrevolutionary regime. Shown in Table 7.1, the two regimes' different political centralization levels in turn influenced their subnational governments' deviation thresholds, the subnational governments' behaviors, the national governments' incentives to pursue economic (de)centralization policies, and finally the economic (de)centralization policy outcomes. Particularly worth emphasizing is the stark contrast between the subnational governments' behaviors in the two regimes. While the Mexican state governors openly confronted and challenged the federal government on economic policies, the Chinese local officials, not only in the old liberated areas, but also in the new liberated areas like Guangdong Province, and not only at the provincial level, but also at the grass-roots levels, such as in Mei Xian (County) and Qiaoxiang Village, pursued the central government's economic policy agenda. Moreover, while the Mexican state governors continued to deviate from the federal fiscal policies after the political and fiscal centralization processes in the 1940s, the local leaders pursued the central economic policy agenda of the Great Leap Forward after the economic decentralization process in the late 1950s, despite the disastrous effects of the policy agenda on their localities.

The comparison between the two cases in Chapters 3 to 5 strongly suggests that the impacts of the economic decentralization policies heavily depend on the political contexts. This dissertation's main contribution is to theorize and test the causal connections between one of the political contextual factor, namely the level of political centralization, and the economic (de)centralization policies.

Building on the previous theories on democracies and the new theory on autocracies, Chapter 6 conducts a large-N statistical analysis to test whether the effects of political centralization on economic decentralization are indeed different in different regimes, based

on a sample of 59 countries over the period from 1972 to 2016. The main results confirm that political centralization levels are positively correlated with fiscal expenditure decentralization levels in autocracies while negatively correlated with fiscal decentralization in democracies, lending support to both the previous literature and the theory developed in this dissertation.

Moreover, Chapter 6 also lends moderate support that there is a U-shaped relationship between political centralization and fiscal decentralization levels in autocracies. This is expected because when the political system is not centralized enough, the national government has a strong incentive to pursue fiscal centralization policies but lacks the necessary political capacity to implement such policies. In such a context, an increase in the political centralization level gives the national government more capacity to implement the fiscal centralization policies. Thus, the correlation between political centralization and fiscal decentralization is negative. On the other hand, when the political system is highly centralized, the national government has the capacity to maintain an economically centralized system but lacks the incentives to do so, because local officials now become trustworthy agents. Thus, the correlation between political centralization and fiscal decentralization is positive. The statistical evidence supports the U-shaped pattern, although the pattern is not statistically significant when comparing across countries. It is possible the lack of statistical significance is a result of the small sample size. Future research can further test the possible U-shaped relationship with larger samples.

Finally, the game-theoretical model in Chapter 2 predicts that the effects of political centralization on economic decentralization are stronger in countries with higher socioeconomically optimal economic decentralization levels—the x_0 term in the model. This is because the economic systems are expected to be relatively centralized in countries with low socioeconomically optimal economic decentralization levels (such as countries with small sizes and underdeveloped economies), irrespective of their political centralization levels. It is in those countries with high socioeconomically optimal economic decentralization levels (namely high x_0),² political centralization is expected to affect economic decentralization.

In the case study chapters, the socioeconomic factors are treated as control conditions

²As a result of high x_0 , such countries are expected to have high x_I and the effects of political centralization are stronger for countries with high x_I . For more details, see Section 2.5.2 in Chapter 2

and are not the focus of the theory-testing, because of the small-N limitation. But the large-N statistical analysis allows me to test this theoretical prediction. The results are consistent with the theoretical prediction that the positive effects of political centralization on fiscal expenditure decentralization are indeed stronger in countries with larger populations and more developed economies. In addition, the statistical analysis also supports that the negative effects of political centralization on fiscal decentralization are stronger in democracies. This conditional effect in democracies is not derived from the model. I conjecture that in democracies, the population sizes and economic development levels change the subnational government's incentives of demanding the economic resources and authority. The subnational governments from the large and more developed economies have more incentives to demand than their counterparts from the small and less developed economies. Thus, like in autocracies, fiscal decentralization levels are expected to be low in the small and less developed economies, regardless of the political centralization levels. The negative effects of political centralization are expected to be stronger in democracies with higher socioeconomically optimal economic decentralization levels.

7.2 IMPLICATIONS

The main contribution of this dissertation is to theorize that a high level of political centralization can contribute to economic decentralization policies in autocracies. The theoretical contribution helps us to better understand the political institutional conditions for economic decentralization policies in autocracies. The socioeconomic conditions that have been studied extensively by the economists seem universal across countries ([Arzaghi and Henderson, 2005](#); [Letelier S., 2005](#)), but we do observe variation in economic decentralization levels in countries with similar socioeconomic conditions. One major source of this variation is the different political institutional designs, which produce very different incentives for policymakers, involve different policymaking processes, and ultimately result in different economic decentralization outcomes. There is already a considerable literature that examines the political institutional conditions for the economic decentralization outcomes, such as the works

by Shirk (1993), Willis, Garman and Haggard (1999), Montero and Samuels (2004), Eaton (2004), O'Neill (2005), Díaz-Cayeros (2006), Falleti (2010), and Liu et al. (2015), just to list a subset of the literature. However, most of these works, except the books by Eaton (2004) and O'Neill (2005), emphasize the bottom-up demands from subnational governments as the main cause of the economic decentralization policies. This emphasis is valid for the economic decentralization cases in the democratic context, as bargaining is indeed frequent in democracies. But this is insufficient for understanding the economic decentralization policies in autocracies, where the subnational interests are often not well represented at the national level and the economic decentralization policies tend to be results of the national government's top-down decisions. As I have shown in this dissertation, not only do the subnational governments have incentives to push for economic decentralization, the national governments also have incentives to pursue economic decentralization policies. They just need to weigh the benefits of economic decentralization policies, theorized as economic efficiency gains in this dissertation, against the costs, such as a loss of economic resources at the center and their potential inability to implement their preferred economic policies at the local levels. By analyzing the political conditions for economic decentralization policies in these top-down cases, the new theory developed in this dissertation gives a more complete picture of the political reasons for the economic decentralization policies.

Understanding the top-down economic decentralization cases also helps shed light on the different economic decentralization levels between autocracies and democracies. The theoretical model in Chapter 2 makes predictions about the national government's preferred economic decentralization levels. None of the three potential economic decentralization levels (x_I , x_D , and x_τ) reaches the socioeconomically optimal level (x_0). This means if the economic decentralization level is a top-down process, the national government never wants it to be more economically decentralized than the optimal levels dictated by the socioeconomic conditions. On the other hand, the bottom-up demands and the bargaining mechanisms may compel the national government to accept economic decentralization levels higher than the socioeconomically optimal levels. Based on the statistical results, there is evidence that the bargaining mechanism is more prevalent in democracies than in autocracies. Thus, we would expect that democracies tend to have higher economic decentralization levels than

autocracies.

Scholars disagree over economic decentralization's implications for economic governance (Tiebout, 1956; Oates, 1972; Qian and Weingast, 1996). The more recent literature emphasizes that the effects of economic decentralization levels on economic governance depend on the political contexts (Rodden and Rose-Ackerman, 1997). This dissertation confirms that within a highly politically centralized system, economic decentralization policies alone do not necessarily make the local governments more responsive to local needs or increase economic efficiency. The answers to the question of "what political conditions facilitate/impede economic decentralization processes" can also contribute to our understanding of "why economic decentralization brings better economic performance in some cases but harms economic performance in others." For instance, for cases where the economic decentralization policy is a result of a high level of political centralization, the economic performance then heavily depends on the national government's economic agenda. The national government's sound economic decisions can produce good outcomes at the local level, but the national government's bad economic decisions can have disastrous impacts on local economies, despite the apparent high economic decentralization level.

Finally, this theory could potentially contribute to a better understanding of the different impacts of regime types on economic performance. Particularly, the findings in this dissertation suggests that one potential mechanism through which a country's regime type influences its economic performance is through affecting the allocation of economic resources and authority between the national and subnational governments. In autocracies, where the economic decentralization policies are more likely to result from a top-down process, the economic decentralization levels tend to be lower than in democracies, and for those autocratic countries that have high economic decentralization levels, the subnational governments are more likely to be responsive to the national government's policy agenda instead of the local needs. On the other hand, in democracies, the economic decentralization levels are expected to be higher due to the more frequent bargaining processes, and the local governments tend to be more responsive to the local economic needs, compared to their counterparts in autocracies. Under these expectations, across these two types of regimes, the national government's role is expected to be much stronger in the autocratic context than in democ-

racies. This could potentially contribute to the phenomenon observed by [Przeworski et al. \(2000, pp. 176–178\)](#) that the economic performance of dictatorships is more volatile than that in democracies. Because the economic performance in autocracies heavily depends on the decisions made by the national government, the changes of the national administrations could result in a high level of economic volatility. On the other hand, in democracies, the economic decision-making is more decentralized, and therefore the impacts of a change at the national level are expected to be less drastic.

7.3 MOVING FORWARD

This dissertation only tests a subset of the model's predictions. For instance, it does not test the theory's predictions with regard to the pragmatic type and predatory type of national governments. It would be interesting for future research to compare the pragmatic type with the ideological type to examine how the national government's ideological adherence can affect a country's economic decentralization levels. The expectation is that for countries with similarly low levels of political centralization, those countries with the pragmatic type of national government have higher economic decentralization level than the ones with the ideological type of national government. Similarly, countries with the predatory type of national governments is expected to have lower levels of economic decentralization levels than countries governed by the developmental type.

This top-down model can also form a basis for further theory-building on cross-regime comparisons. For instance, as discussed above, the dissertation offers a potential explanation for the lower economic decentralization levels in autocracies than in democracies. That is, the top-down processes that happen more frequently in autocracies result in lower economic decentralization levels than those in democracies where the bottom-up bargaining processes are more common. Further theorization can better elaborate on the differences between a bottom-up bargaining process and a top-down delegation process.

Moreover, in this theory I only discuss the impacts of political centralization levels on economic decentralization policies. How would the economic decentralization levels affect

the political centralization levels? As the Mexican case shows, the fiscal centralization process beginning in the 1920s facilitated the political centralization process. If the opposite is also true that by granting the subnational governments more economic resources and authority, economic decentralization policies also decrease political centralization levels, we may observe a negative feedback loop and a relatively stable long-term economic and political decentralization levels within a country. How economic decentralization levels affect political centralization levels is another theoretical question that can shed light on the complex relationship between political conditions and economic decentralization levels. It is worth studying and has implications for understanding the impacts of economic decentralization.

The recent decades witness a surge of autocratic regimes in the world. [Lührmann and Lindberg \(2019\)](#) identify its beginning as early as in the 1990s and term this trend “a third wave of autocratization” (pp. 8–9). At this historical moment, it is urgent to understand not only the process of autocratization but also its implications for societies. Answers to how autocracies make their policies and what impacts such policies have on their citizens’ welfare are critical for the vast population currently living under autocracies and for predicting the durability of the autocratic systems. Although these are not new questions, they deserve renewed attention at this historical juncture. The central-local government relationship, conceptualized as political and economic decentralization, is one of the angles to investigate how political institutions in autocracies affect their policy outcomes and how the pattern is different from democracies. On the path to understand autocratic political institutions’ effects on policy outcomes, hopefully future research will continue studying the subnational dimension, the interaction among different levels of governments, and their policy implications.

APPENDIX A

COMPARATIVE STATICS

The discussions in this Appendix complement Chapter 2 and analyze the comparative statics of the economic decentralization levels conditional on changes in the political centralization parameters—the strength of the reward-punishment mechanism ($\frac{c}{\lambda_S}$) and the policy preference divergence between the national and subnational governments (d)—for different types of the national governments.

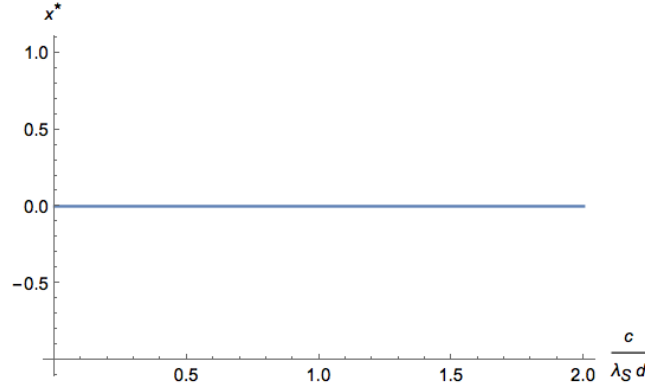
A.1 PREDATORY NG AND DEVELOPMENTAL NG WITH LOW X_0

As shown in Figure 2.4 in Chapter 2, for the predatory national government or the developmental national government in countries with low socioeconomically optimal economic decentralization levels, the SPNE outcome is complete economic centralization.

The relationship between the SPNE economic decentralization level and the subnational government's deviation threshold for this case is illustrated in Figure A1. It shows that the SPNE economic decentralization level does not depend on the subnational government's deviation threshold. The level of political centralization does not have any effects on the economic decentralization levels for the predatory national government, nor for the developmental type in a country with low socioeconomically optimal economic decentralization level.

For the developmental national government in countries with high socioeconomically

Figure A1. Complete Economic Centralization and Deviation Threshold



optimal economic decentralization levels, the level of political centralization influences the SPNE economic decentralization levels. How the political centralization level affects the economic decentralization levels depends on whether the national government is ideological or pragmatic. In addition, for the pragmatic developmental national government, the impacts of the political centralization level on the economic decentralization levels are different, conditional on whether the change in the political centralization level alters the strength of the reward-punishment mechanism or it changes the policy preference divergence between the national and subnational governments. Specifically, the reward-punishment mechanism affects economic decentralization levels only through influencing the subnational government's deviation threshold; the policy preference divergence can influence economic decentralization by both changing the subnational government's deviation threshold and changing the national government's cost of allowing the subnational government's policy deviation. Due to this reason, I separate the discussion of how a change in the strength of the reward-punishment mechanism affects the economic decentralization outcome from how a change in the policy preference divergence affects the economic decentralization outcome.

A.2 IDEOLOGICAL DEVELOPMENTAL NG WITH HIGH X_0

In this section, I first discuss how political centralization levels affect the SPNE economic decentralization levels through changing the strength of the reward-punishment mechanism and the policy preference divergence between the national and subnational governments. To simplify the notation, from now on I use m to denote the relative strength of the reward-punishment mechanism ($\frac{c}{\lambda_S}$) and use m_0 , m_1 , and m_2 , etc., to denote specific values of $\frac{c}{\lambda_S}$. The deviation threshold ($\frac{c}{\lambda_S d}$) is thus denoted as $\frac{m}{d}$, a ratio of the relative strength of the reward-punishment mechanism (m) over the policy preference divergence between the national and subnational governments (d).

As discussed in Chapter 2, an ideological developmental national government has a strong distaste for policy deviation at the subnational level so that it is unwilling to sacrifice policy implementation in exchange for economic efficiency gains. For this type of national government, only (x_τ, I) and (x_I, I) are possible SPNE outcomes.¹ Holding the policy preference divergence term, d , constant at d_0 , the relationship between the equilibrium economic decentralization level, x^* , and the strength of the reward-punishment mechanism, m , is shown in Figure A2.

When the reward-punishment mechanism is relatively weak, i.e., m is low, the equilibrium economic decentralization level is the deviation threshold, x_τ . The SPNE outcome is (x_τ, I) . As the reward-punishment strengthens and the deviation threshold increases, the SPNE economic decentralization level (x^*) increases with x_τ until the m reaches m_I .² When the strength of the reward-punishment mechanism exceeds m_I , the SPNE economic decentralization stops increasing with the deviation threshold. Instead, it stays at x_I . The SPNE outcome is (x_I, I) . At this level, the national government obtains the highest utility possible, which is the maximum of $U_N(x, I)$.³

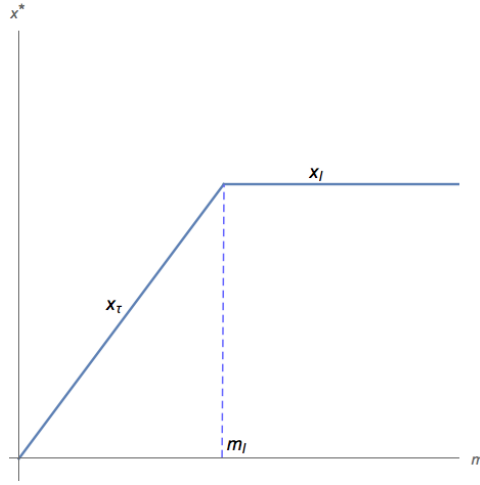
For the ideological developmental national government, the effects of the policy preference

¹An ideological national government here describes a national government with a high λ_N , so that $\lambda_N \geq \frac{2\theta x_0 - (1 - \theta)}{d_0}$. This implies that $x_D \leq 0$ and thus $x_D < x_\tau$, because the deviation threshold x_τ is always positive. In this case, (x_D, D) is not an option.

²When $m < m_I$, (x_τ, I) is the SPNE outcome, where $m_I = x_I * d_0$.

³When $m \geq m_I$, (x_I, I) is the SPNE outcome.

Figure A2. The SPNE Economic Decentralization Level (x^*) and the Reward-Punishment Mechanism (m) for an Ideological Developmental National Government



divergence on the equilibrium economic decentralization levels depend on the strength of the reward-punishment mechanism.

Figure A3. The SPNE Economic Decentralization Level for an Ideological Developmental NG, When the Reward-Punishment Mechanism is Strong ($m_0 \geq x_I$)

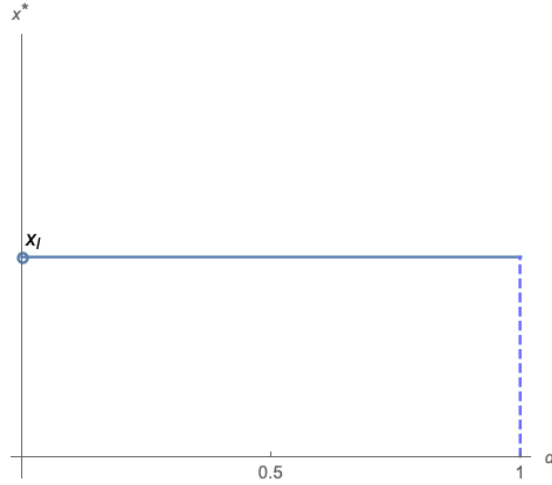


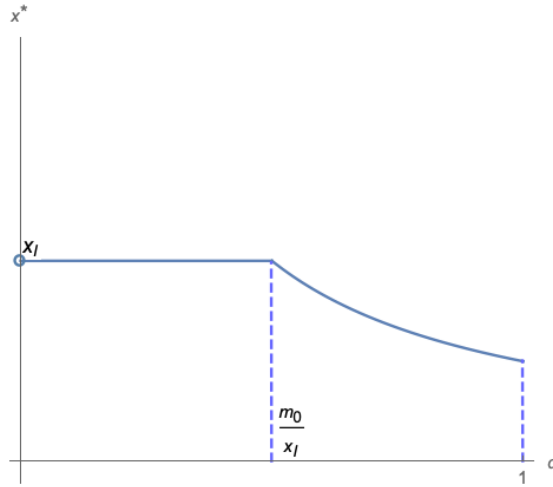
Figure A3 illustrates when the reward-punishment mechanism is very strong relative to x_I , the national government always sets the SPNE economic decentralization level at its highest, i.e., $x^* = x_I$, regardless of how big the policy preference divergence is.⁴ In this case, the reward-punishment mechanism is so strong that no matter how big the policy preference

⁴When $m_0 \geq x_I$, for all $d \in (0, 1]$, $\frac{m_0}{d} \geq x_I$ and $x^* = x_I$.

divergence between the two levels of governments is, the subnational government's deviation threshold is always greater than or equal to x_I . Thus, the national government sets x at x_I and obtains the highest utility possible $U_N(x_I, I)$. The SPNE outcome is always (x_I, I) .

As discussed earlier, by controlling the subnational government's personnel, high levels of political centralization result in low levels of policy preference divergence between the national and subnational governments. But in this case (when the reward-punishment mechanism is too strong), high levels of political centralization do not affect the SPNE economic decentralization levels, even though it reduces the policy preference divergence between the two levels of government.

Figure A4. The SPNE Economic Decentralization Level for an Ideological Developmental NG, When the Reward-Punishment Mechanism is Not So Strong



When the reward-punishment mechanism is not too strong, i.e., $m_0 < x_I$. For an ideological developmental national government, how the equilibrium economic decentralization levels change with the policy preference divergence is illustrated in Figure A4.⁵

⁵The conditions for this pattern to hold are the following:

$$\left\{ \begin{array}{l} m_0 < x_I \\ \lambda_N \geq (3 - 2\sqrt{2}) \frac{\theta x_I^2}{m_0} \end{array} \right\} ; \text{ or } \left\{ \begin{array}{l} \frac{2 - \sqrt{2}}{2} x_I < m_0 < x_I \\ 2\theta(x_I - \sqrt{m_0(2x_I - m_0)}) \leq \lambda_N < (3 - 2\sqrt{2}) \frac{\theta x_I^2}{m_0} \end{array} \right\}.$$

It is worth noting that when the reward-punishment mechanism parameter m_0 increases in value approaching x_I , the lower bound of the ideological parameter λ_N for this pattern to hold decreases in value approaching 0. This is to say that when the reward-punishment mechanism is strong, the national government can be very pragmatic while the SPNE outcomes still do not include allowing the subnational government to deviate from the national government's policy agenda, i.e., (x_D, D) is impossible.

In this case, when the policy preference divergence between the national government and the subnational government is small, specifically less than $\frac{m_0}{x_I}$, the national government chooses x_I as the economic decentralization level. When the policy preference divergence is within the range $(0, \frac{m_0}{x_I}]$, the subnational government shares the national government's policy preferences enough that it has a sufficiently high deviation threshold, i.e., above x_I . The national government can set the economic decentralization level at x_I , anticipating that the subnational government pursues its policy agenda. The SPNE outcome in this case is (x_I, I) . When d is in $(0, \frac{m_0}{x_I}]$, a decrease in the policy preference divergence does not affect the economic decentralization level.

As the policy preference divergence increases and exceeds $\frac{m_0}{x_I}$, the national government sets the economic decentralization level at the deviation threshold $(\frac{m_0}{d})$. Since we hold the relative strength of the reward-punishment mechanism constant at m_0 , the deviation threshold decreases as the policy preference divergence increases. Therefore, as d increases, the SPNE economic decentralization level decreases.

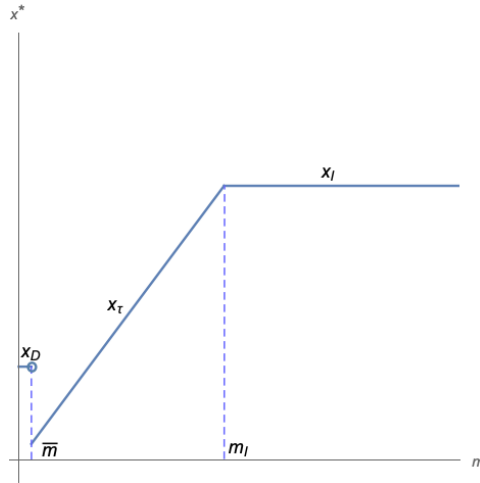
In sum, for an ideological developmental national government, its equilibrium economic decentralization levels increase with the strength of the reward-punishment mechanism until the economic decentralization level reaches the highest level ever desired by the national government, as illustrated in Figure A2. Once the reward-punishment mechanism's strength exceeds this threshold, the equilibrium economic decentralization level stays constant and no longer increases with the strength of the reward-punishment mechanism. With regard to the impacts of the policy preference divergence on the equilibrium economic decentralization levels, there are two possible patterns, depending on the strength of the reward-punishment mechanism. When the reward-punishment mechanism is very strong, how the policy preference divergence influences the equilibrium economic decentralization levels is shown in Figure A3. In this case, the reward-punishment mechanism is so strong that no matter how big the policy preference divergence is, the subnational government always implements the national economic agenda and the equilibrium economic decentralization level stays at the highest economic decentralization level ever desired by the national government. When the reward-punishment mechanism is not so strong, the effects of the policy preference divergence on the equilibrium economic decentralization levels is shown in Figure A4. In this

case, the ideological developmental national government sets the economic decentralization level at the highest level it ever desires when the policy preference divergence is small. When the policy preference divergence is large, the economic decentralization level decreases with the policy preference divergence.

A.3 PRAGMATIC DEVELOPMENTAL NG WITH HIGH X_0

Different from the ideological type, for a pragmatic national government, all three SPNE outcomes, i.e., (x_D, D) , (x_τ, I) , and (x_I, I) , are possible.⁶ (x_D, D) is possible implies that when the political centralization level is low, the national government is willing to sacrifice the policy implementation at the subnational level in exchange for higher economic efficiency.

Figure A5. The SPNE Economic Decentralization Level (x^*) and the Reward-Punishment Mechanism (m) for a Pragmatic National Government



Holding the policy preference divergence constant at d_0 , the relationship between the economic decentralization levels and the strength of the reward-punishment mechanism for a pragmatic developmental national government is shown in Figure A5. When the strength of the reward-punishment mechanism is lower than \bar{m} , the national government allows the subnational government to deviate from the national government's policy agenda in exchange

⁶Being pragmatic describes a national government with a low λ_N , so that $\lambda_N < \frac{2\theta x_0 - (1-\theta)}{d_0}$. This implies that $x_D > 0$.

for higher economic efficiency, making (x_D, D) the SPNE outcome.⁷ In this case, the national government would need to centralize to a very great extent in order for the subnational government not to deviate. On the other hand, the pragmatic national government does not consider it is worthwhile to sacrifice economic efficiency in exchange for implementing its own policy agenda, and thus chooses to allow the subnational government's deviation. As long as the national government decides to allow policy deviation, it chooses x_D as the economic decentralization, which gives it the highest possible utility when the subnational government deviates. When the reward-punishment mechanism is too weak, the economic decentralization level under a pragmatic national government is higher than the level under an ideological national government.⁸

As the reward-punishment mechanism strengthens and its value exceeds \bar{m} but is still less than m_I ,⁹ the national government sets the economic decentralization level at the deviation threshold. When m is within the range $[\bar{m}, m_I]$, as the reward-punishment mechanism becomes stronger, the deviation threshold increases and the utility of setting the economic decentralization level at the deviation threshold increases. \bar{m} is the point at which the national government is indifferent between setting x at x_D and setting x at x_τ . From this point onward, the national government sets x^* at x_τ . The SPNE outcome is (x_τ, I) . When the strength of the reward-punishment mechanism is within the range $[\bar{m}, m_I]$, the SPNE economic decentralization level increases as the reward-punishment mechanism strengthens.

Similar to the case for an ideological national government, as the strength of reward-punishment mechanism continues to increase and surpasses m_I , so that the deviation threshold exceeds x_I , the pragmatic national government also sets the economic decentralization level at x_I and gets the highest utility possible, i.e., the maximum of $U_N(x, I)$. The SPNE outcome is (x_I, I) .

Unlike for the ideological type, it is possible that for a pragmatic national government, the economic decentralization level decreases as the reward-punishment mechanism strengthens, when the deviation threshold is low enough. This implies when political centralization

⁷ $\bar{m} = d_0 * (x_I - \sqrt{\frac{\lambda_N d}{\theta}}(x_I - \frac{\lambda_N d}{4\theta}))$.

⁸For all $m \leq \bar{m}$, we have $x_D > \frac{m}{d_0}$.

⁹ $m_I = x_I * d_0$, same as for the ideological national government.

is very low, it is possible that a moderate increase in political centralization may lead to economic centralization.¹⁰ When the reward-punishment mechanism is too weak, the pragmatic national government sets the economic decentralization level at a relatively high level x_D ; but as the reward-punishment mechanism becomes moderately stronger,¹¹ the national government prefers a lower level of economic decentralization than x_D . It is an unexpected result that political centralization can lead to economic centralization, given the delegation framework.

For a pragmatic developmental national government, the effects of the policy preference divergence on the equilibrium economic decentralization levels also depend on the strength of the reward-punishment mechanism. This is similar to the results for an ideological developmental national government.

Figure A6. The SPNE Economic Decentralization Level for a Pragmatic Developmental NG, When the Reward-Punishment Mechanism is Strong ($m_0 \geq x_I$)

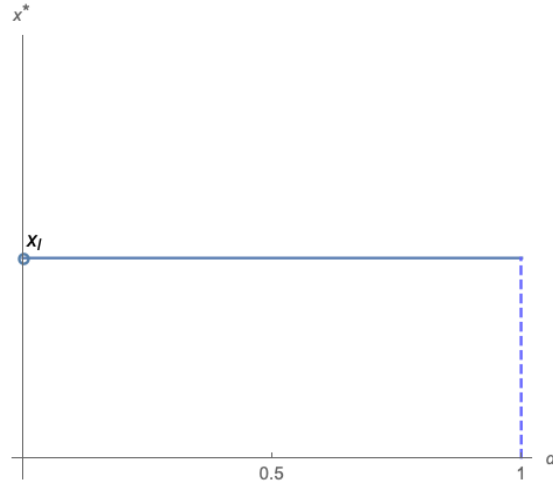


Figure A6 is the same as Figure A3. Like the case for an ideological developmental national government, when the reward-punishment mechanism is very strong, the pragmatic national government also sets the economic decentralization level at x_I , regardless of the policy preference divergence.¹² The SPNE outcome is always (x_I, I) .

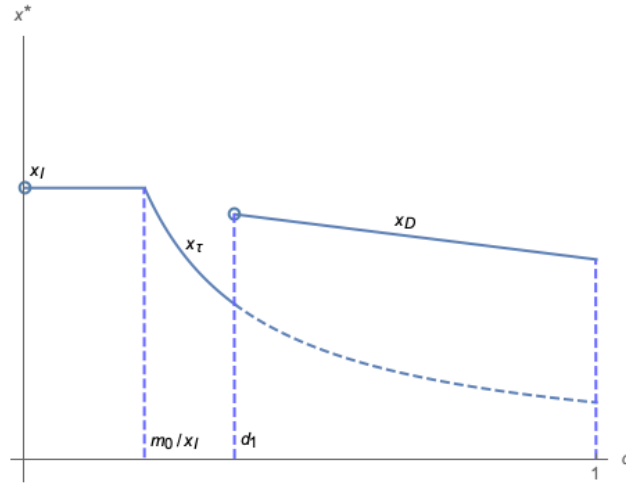
When the reward-punishment mechanism is not too strong, i.e., $m_0 < x_I$, and when

¹⁰For all $m_1 \in (0, \bar{m})$ and $m_2 \in [\bar{m}, x_D d_0)$, we have $m_1 < m_2$ and $x^*(m_1) > x^*(m_2)$.

¹¹The reward-punishment mechanism is strong enough to make the national government prefer setting x at x_τ , but not overly strong so that x_τ is still less than x_D .

¹²When $m_0 \geq x_I$, for all $d \in (0, 1]$, $\frac{m_0}{d} \geq x_I$ and $x^* = x_I$.

Figure A7. The SPNE Economic Decentralization Level for a Pragmatic Developmental NG, When the Reward-Punishment Mechanism is Not So Strong



the national government is pragmatic, the effects of the policy preference divergence on the equilibrium economic decentralization levels are shown in Figure A7.¹³ Different from the ideological developmental national government in Figure A4, this pragmatic type allows the subnational government to deviate from the national government's policy agenda and (x_D, D) can be an SPNE outcome.

When the policy preference divergence between the two levels of government is very small, i.e., less than $\frac{m_0}{x_I}$, this pattern is similar to the pattern for the ideological type: the national government chooses x_I as the economic decentralization level. This is because when the policy preference divergence between the two levels of governments is low enough, the national government can set the economic decentralization level at x_I and still anticipates that the subnational government pursues the national government's policy agenda. The SPNE outcome is (x_I, I) . When the policy preference divergence (d) is low, i.e., within the range $(0, \frac{m_0}{x_I}]$, a change in d does not affect the economic decentralization level.

Also similar to the pattern for the ideological type, as the policy preference divergence

¹³The formal expression of the conditions for this pattern to hold is the following:

$$\begin{cases} 0 < m_0 < x_I \\ 0 < \lambda_N < 2\theta(x_I - \sqrt{m_0(2x_I - m_0)}) \end{cases}.$$

increases and exceeds $\frac{m_0}{x_I}$ but remains below d_1 ,¹⁴ the national government sets the economic decentralization level at the subnational government's deviation threshold ($\frac{m_0}{d}$). The SPNE outcome is (x_τ, I) . Within this range, the economic decentralization level decreases as the policy preference divergence increases.

The range of d in which this pattern differs from the ideological type is when d is in $(d_1, 1]$. For the ideological type, the national government cares more about the policy implementation and thus does not allow the subnational government to deviate from the national government's policy agenda. Differently the national government here is very pragmatic. As the policy preference divergence increases and exceeds d_1 , the national government sets the economic decentralization at x_D and the SPNE outcome is (x_D, D) . d_1 is the point at which the national government is indifferent between the two outcomes (x_τ, I) and (x_D, D) . When d is below d_1 , the national government prefers (x_τ, I) ; when it is above d_1 , the national government prefers (x_D, D) .

The political logic that drives this result is that as d exceeds d_1 , the deviation threshold is too low for a pragmatic national government to set as the economic decentralization level. This is to say that when d is greater than d_1 , the economic resources and authority would be too centralized if the national government sets the economic decentralization at the deviation threshold $\frac{m_0}{d}$. Because the national government is pragmatic, when d is too high that renders the deviation threshold too low, the national government is no longer willing to have a centralized economic system at the expense of the economic efficiency. Once the national government decides to allow the subnational government to deviate, the national government chooses $x^* = x_D$, higher than $\frac{m_0}{d}$ in order to achieve higher economic efficiency.

Because x_D is a monotonically decreasing function of d ,¹⁵ when d is high enough and the national government chooses x_D as the economic decentralization level, the economic decentralization level decreases as the policy preference divergence increases, as illustrated in Figure A7. Why does x_D decrease with d ? The reason is that when the policy preferences of the subnational government become more different from those of the national government, it becomes more costly for the national government to tolerate the deviation behavior of the

¹⁴ $d_1 = \frac{1}{\lambda_N}(\theta x_I - \sqrt{\theta m_0 \lambda_N} - \sqrt{\theta^2 x_I^2 - \theta m_0 \lambda_N - 2\theta x_I \sqrt{\theta m_0 \lambda_N}}).$

¹⁵Recall that $x_D = x_0 - \frac{1-\theta}{2\theta} - \frac{\lambda_N}{2\theta}d$.

subnational government. Therefore, an increase in d reduces the national government's incentives to pursue economic decentralization. Note that as the ideological factor (λ_N) becomes smaller, the slope of x_D becomes flatter, meaning that the negative effects of d on the economic decentralization levels become smaller.

Again when the national government is pragmatic, it is possible that a decrease in the policy preference divergence can lead to a lower level of economic decentralization.¹⁶ The rationale for this result is the following: by reducing the policy preference divergence, political centralization increases the subnational government's deviation threshold. The increase in the subnational government's deviation threshold makes setting the economic decentralization level at the deviation threshold increasingly attractive for the national government. There is a point (d_1 in Figure A7), below which it is more preferable for the national government to set the economic decentralization level at the deviation threshold than at x_D . As Figure A7 shows, when the decrease of the policy preference divergence happens around d_1 , for instance, from $d_1 + \epsilon$ to $d_1 - \epsilon$, where $\epsilon > 0$, the national government switches from allowing subnational government's policy deviation to forbidding it. In this scenario, a reduction in d can result in a reduction in the economic decentralization levels, making it possible for political centralization to result in economic centralization.

When the reward-punishment mechanism is weak, the last pattern of how policy preference divergence influences the SPNE economic decentralization levels is illustrated in Figure A8. In this case, as the policy preference divergence between the two levels of governments increases, the SPNE economic decentralization level changes from x_I to x_τ and x_D , and back to x_τ as d approaches its theoretical maximum, i.e., $d = 1$.

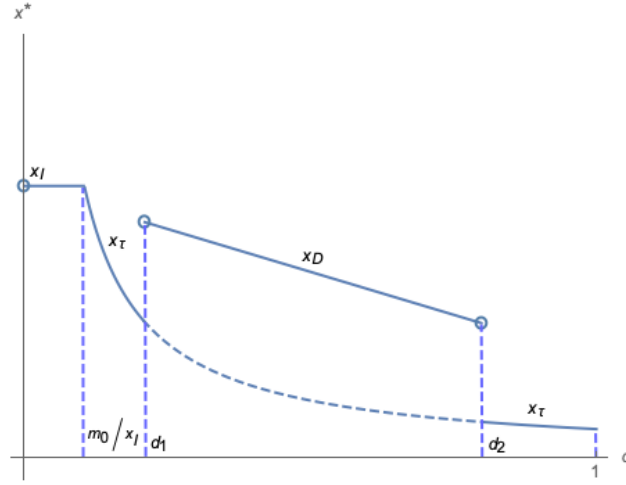
For this pattern to hold, the reward-punishment mechanism needs to be weak and the national government cannot be too pragmatic.¹⁷ If the reward-punishment mechanism is not

¹⁶For any $d_D \in (d_1, \frac{2\theta}{\lambda_N}(x_I - \frac{m_0}{d_1})) \cap (d_1, 1]$, we can find $d_{\tau 0} = \frac{2\theta m_0}{2\theta x_I - \lambda_N d_D}$, so that $d_{\tau 0} \in (\frac{m_0}{x_I}, d_1]$ and for all $d_\tau \in [d_{\tau 0}, d_1]$, we have $d_\tau < d_D$ and $x^*(d_\tau) < x^*(d_D)$.

¹⁷The formal expression of the conditions is the following:

$$\begin{cases} 0 < m_0 < \frac{2 - \sqrt{2}}{2} x_I \\ 2\theta(x_I - \sqrt{m_0(2x_I - m_0)}) \leq \lambda_N < (3 - 2\sqrt{2}) \frac{\theta x_I^2}{m_0} \end{cases}$$

Figure A8. The SPNE Economic Decentralization Level for a Moderately Pragmatic Developmental NG, When the Reward-Punishment Mechanism is Weak



weak enough,¹⁸ more ideological national government follows the pattern shown in Figure A4 and more pragmatic national government follows the pattern in Figure A7; the pattern in Figure A8 is not possible.

The pattern in Figure A8 is similar to that in Figure A7, when the policy preference divergence is lower than d_2 .

When d is lower than $\frac{m_0}{x_I}$, the SPNE outcome is (x_I, I) . In this case, the subnational government's deviation threshold is higher than x_I . The national government sets the economic decentralization level at x_I and the subnational government implements the national government's policy agenda.

As the policy preference divergence increases and exceeds $\frac{m_0}{x_I}$ but is still less than d_1 ,¹⁹ the SPNE outcome is (x_τ, I) . Within the range $[\frac{m_0}{x_I}, d_1]$, an increase in the policy preference divergence lowers the deviation threshold, which means that the subnational government would choose policy deviation with increasingly lower economic decentralization levels. The national government cannot choose x_I and assumes that the subnational government follows the national policy agenda. Instead, to ensure the implementation of the national

¹⁸Here when $m_0 \geq \frac{2-\sqrt{2}}{2}x_I$, the reward-punishment mechanism is not weak enough.

¹⁹The equation for d_1 is the same as in the previous pattern, i.e., $d_1 = \frac{1}{\lambda_N}(\theta x_I - \sqrt{\theta m_0 \lambda_N} - \sqrt{\theta^2 x_I^2 - \theta m_0 \lambda_N - 2\theta x_I \sqrt{\theta m_0 \lambda_N}})$.

government's preferred economic policies, the national government sets the economic decentralization level at the deviation threshold, x_τ . The subnational government follows the national government's policy directives as a result. Within the range $[\frac{m_0}{x_I}, d_1]$, as the policy preferences between the two levels of governments become more different, the economic decentralization level becomes lower.

In Figure A8, as the policy preference divergence term exceeds d_1 but is less than d_2 ,²⁰ the SPNE outcome is (x_D, D) . When d is within the range (d_1, d_2) , the relatively pragmatic national government prefers to set the economic decentralization level at x_D , which is higher than the subnational government's deviation threshold, and thus allows the subnational government to deviate from the national government's economic policy agenda. As discussed earlier, a rise in d increases the cost of the subnational government's policy deviation for the national government. Thus, within (d_1, d_2) , although the relatively pragmatic national government chooses x_D and allows the subnational government to deviate from the national government's policy agenda, an increase in the policy preference divergence lowers the SPNE economic decentralization levels.

Different from the previous pattern, as the policy preference divergence d continues to increase and exceeds d_2 , i.e., when d is in $[d_2, 1]$, the SPNE outcome becomes (x_τ, I) again. The political logic is that as d increases, the cost of allowing the subnational government's deviation behavior continues to increase. Because the national government is not too pragmatic, it still values policy implementation. d_2 is the point when the national government stops tolerating the deviation behavior of the subnational government which now has an economic policy preference too different from itself. For the national government, when the policy preference divergence is below d_2 , the costs of allowing the subnational government's deviation behavior and enduring having lower economic resources at its own hands are lower than the economic efficiency gains from a relatively higher economic decentralization level. Thus, the national government prefers (x_D, D) . As d exceeds d_2 , such costs outweigh the economic efficiency gains. The national government prefers x_τ to x_D again, so (x_τ, I) becomes the SPNE outcome. When d is in $[d_2, 1]$, as it increases, the subnational government's deviation threshold decreases which leads to the decrease of the SPNE economic decentralization

²⁰ $d_2 = \frac{1}{\lambda_N}(\theta x_I - \sqrt{\theta m_0 \lambda_N} + \sqrt{\theta^2 x_I^2 - \theta m_0 \lambda_N - 2\theta x_I \sqrt{\theta m_0 \lambda_N}})$

level.

The condition that the national government is pragmatic makes it possible for the national government to tolerate subnational government's policy deviation, when d is at a medium level. The condition that the national government is not too pragmatic makes the national government prioritize the subnational government implementing the national policy agenda, when d is high.

Like the previous pattern, the condition that the national government is pragmatic and allows the subnational government to deviate from the national government's policy agenda makes it theoretically possible that political centralization can lead to economic centralization.²¹ The condition for political centralization to result in economic centralization is the same as in the previous pattern, i.e., the decrease in d must be from higher than d_1 to lower than d_1 . Only when d changes around d_1 , a reduction in d leads the national government to change from choosing x_D to x_τ and results in higher economic centralization. Other than this scenario, a reduction in d either leads to no change in x^* , when the change in d happens in $(0, \frac{m_0}{x_I}]$; or an increase in x^* , when the change in d happens in all other intervals.²²

In sum, this section discusses for a pragmatic developmental national government, how the equilibrium economic decentralization levels change with the strength of the reward-punishment mechanism and the policy preference divergence between the national and subnational governments. The comparative statics are shown Figures A5, A6, A7, and A8.

Among these figures, Figure A5 shows how the equilibrium economic decentralization level changes with the reward-punishment mechanism, holding the policy preference divergence constant at d_0 . As the figure illustrates, for a pragmatic national government, when the reward-punishment is weak, the national government allows the subnational government

²¹ Similar to the result for Figure A7, for any $d_D \in (d_1, \frac{2\theta}{\lambda_N}(x_I - \frac{m_0}{d_1})) \cap (d_1, d_2)$, we can find $d_{\tau 0} = \frac{2\theta m_0}{2\theta x_I - \lambda_N d_D}$, so that $d_{\tau 0} \in (\frac{m_0}{x_I}, d_1]$ and for all $d_\tau \in [d_{\tau 0}, d_1]$, we have $d_\tau < d_D$ and $x^*(d_\tau) < x^*(d_D)$.

²² The formal expression of the cases in which a decrease in d leads to an increase in x^* is the following: let d_l and d_h denote two values of d and $d_l < d_h$, $x^*(d_l) > x^*(d_h)$ is true when

- (i) $d_h \in [d_2, 1]$ and $d_l \in (0, d_h)$;
- (ii) or when $d_2 \leq \frac{2\theta}{\lambda_N}(x_I - \frac{m_0}{d_1})$, $d_h \in (d_1, d_2)$ and $d_l \in (0, \frac{2\theta m_0}{2\theta x_I - \lambda_N d_h}) \cup (d_1, d_h)$;
- (iii) or when $d_2 > \frac{2\theta}{\lambda_N}(x_I - \frac{m_0}{d_1})$, $d_h \in (\frac{2\theta}{\lambda_N}(x_I - \frac{m_0}{d_1}), d_2)$ and $d_l \in (0, d_h)$;
- (iv) or when $d_2 > \frac{2\theta}{\lambda_N}(x_I - \frac{m_0}{d_1})$, $d_h \in (d_1, \frac{2\theta}{\lambda_N}(x_I - \frac{m_0}{d_1})]$ and $d_l \in (0, \frac{2\theta m_0}{2\theta x_I - \lambda_N d_h}) \cup (d_1, d_h)$;
- (v) or $d_h \in [\frac{m_0}{x_I}, d_1]$ and $d_l \in (0, d_h)$.

to deviate from the national government's policy agenda. Within a range, the SPNE economic decentralization level does not depend on the reward-punishment mechanism. As the reward-punishment mechanism strengthens but is still not too strong, the national government shifts its strategy and sets the SPNE economic decentralization level at the deviation threshold. Within this range, political centralization increases the SPNE economic decentralization levels. Finally, when the reward-punishment mechanism is very strong, the national government sets the SPNE economic decentralization at x_I and stays constant as the reward-punishment mechanism continues to increase.

Figures A6, A7, and A8 show how the equilibrium economic decentralization level changes with the policy preference divergence, holding the strength of the reward-punishment mechanism constant at m_0 . Shown in Figure A6, when the reward-punishment mechanism is very strong, the national government can always trust that the subnational government would implement the national economic policy agenda and thus set the economic decentralization level at the highest level it ever desires, regardless of the policy preference divergence. This pattern is the same for both the ideological developmental type and the pragmatic developmental type of the national government.

The difference between the ideological developmental type and the pragmatic developmental type occurs when the reward-punishment mechanism is not so strong. There are two possible patterns for the policy preference divergence to influence the equilibrium economic decentralization level, shown in Figures A7 and A8, depending on the degree of pragmatism of the national government and the strength of the reward-punishment mechanism.

When the reward-punishment mechanism is not very strong and the national government is very pragmatic, the policy preference divergence affects the economic decentralization level in the manner illustrated in Figure A7. In this case, as policy preference divergence increases, the SPNE economic decentralization level changes from x_I to x_τ and x_D . When the national government is pragmatic, it is possible that a decrease in the policy preference divergence can lead to a reduction of the economic decentralization level. This happens when the policy preference divergence changes around d_1 .

When the reward-punishment mechanism is weak and the national government is not too pragmatic, the relationship between the equilibrium economic decentralization level and

the policy preference divergence between the national and subnational governments is shown in Figure A8. For the most part, a decrease in the policy preference divergence leads to an increase in the economic decentralization level. However, under the condition that the policy preference divergence changes around d_1 , it is again possible that a reduction in the policy preference divergence can cause a decrease in the economic decentralization level, because the national government changes from allowing policy deviation to forbidding it.

In addition, for the pragmatic national government, as shown in Figures A7 and A8, a decrease in the policy preference divergence affects both the national government and the subnational government's calculation. For the subnational government, a decrease in the policy preference divergence reduces its incentive to deviate from the national government's policy agenda. For the pragmatic national government, a decrease in the policy preference divergence reduces the costs of policy deviation by the subnational government and thus increases the national government's tolerance of the subnational government's deviation behavior.

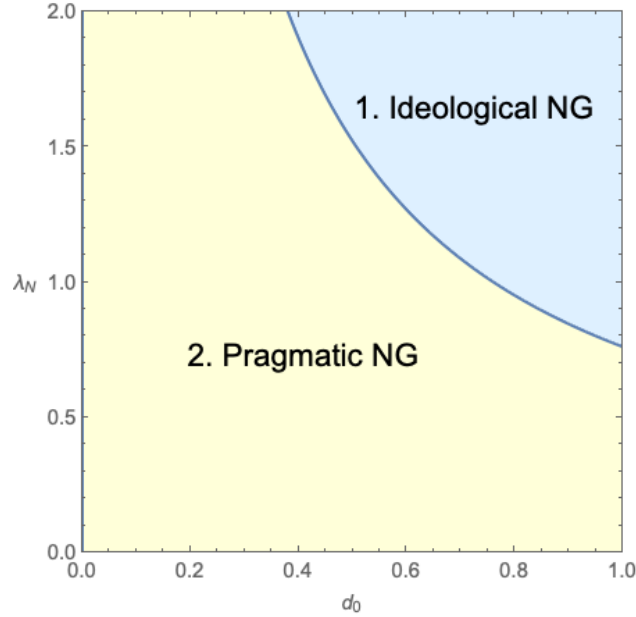
A.4 IDEOLOGICAL VS. PRAGMATIC NG

The previous discussions show that the relationship between the strength of the reward-punishment mechanism and the equilibrium economic decentralization level depends on whether the national government is ideological or pragmatic. If the national government is ideological, the relationship follows the pattern shown in Figure A2; and if the national government is pragmatic, the relationship follows the pattern shown in Figure A5. What exactly does being an ideological national government mean, holding the socioeconomic factors constant and the developmental level of the national government constant?

Figure A9 illustrates how the relationship between the equilibrium economic decentralization level (x^*) and the strength of the reward-punishment mechanism (m) is conditional on the values of λ_N , the ideological factor of the national government, and d_0 , the policy preference divergence between the national and subnational governments.

Conditional on the value of d_0 , when the national government is ideological, i.e., (d_0, λ_N)

Figure A9. Effects of the National Government's Ideological Adherence (λ_N) on the Relationship between the Equilibrium Economic Decentralization Level (x^*) and the Strength of the Reward-Punishment Mechanism (m)

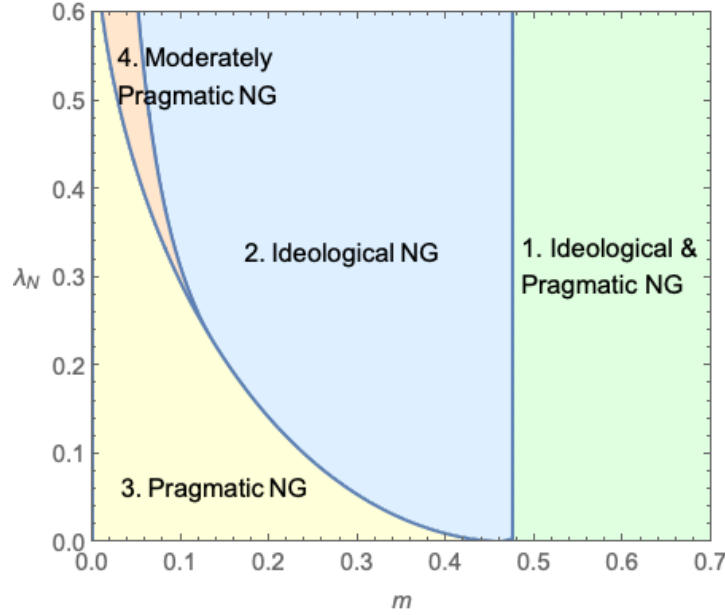


falls in Region 1, the national government does not allow the subnational government to deviate from its policy agenda. The relationship between the equilibrium economic decentralization level and the strength of the reward-punishment mechanism follows the pattern in Figure A2: when $m \in (0, m_I]$, the national government sets x^* at x_τ ; and when $m \in (m_I, +\infty)$, the national government sets x^* at x_I . On the other hand, when the national government is pragmatic, i.e., (d_0, λ_N) falls in Region 2, the relationship between the equilibrium economic decentralization level and the strength of the reward-punishment mechanism follows the pattern in Figure A5: when $m \in (0, \bar{m})$, the national government sets x^* at x_D ; when $m \in [\bar{m}, m_I]$, the national government sets x^* at x_τ ; and finally, when the reward-punishment mechanism is high enough, i.e., $m \in (m_I, +\infty)$, the national government sets x^* at x_I .

Figure A9 shows that the effect of the ideological factor is conditional on the policy preference divergence. When the policy preference divergence is high, the national government does not need to be very high on the ideological factor for the equilibrium to follow the

pattern shown in Figure A2. On the other hand, when the policy preference divergence is low, the national government needs to be very ideological for the equilibrium to follow the pattern in Figure A2.

Figure A10. Effects of the National Government's Ideological Adherence (λ_N) on the Relationship between the Equilibrium Economic Decentralization Level (x^*) and the Policy Preference Divergence (d)



Similarly, despite being a little more complicated, Figure A10 illustrates how the relationship between the equilibrium economic decentralization level (x^*) and the policy preference divergence (d) depends on the ideological factor (λ_N) and the reward-punishment mechanism (m).

When the reward-punishment mechanism is very strong, i.e., (m, λ_N) is in Region 1 in Figure A10, the ideological and pragmatic national governments behave in the same way. Both types would set the equilibrium economic decentralization level at x_I , regardless of the policy preference divergence. The pattern is shown in Figures A3 and A6.

When the reward-punishment mechanism is not so strong and the national government is ideological, i.e., (m, λ_N) falls in Region 2, the relationship between the equilibrium economic decentralization level and the policy preference divergence follows the pattern shown in Figure A4: x^* changes from x_I to x_τ as d increases. When the reward-punishment mechanism is not so strong and the national government is pragmatic, i.e., (m, λ_N) falls in Region

3, the relationship between the equilibrium economic decentralization level and the policy preference divergence follows the pattern shown in Figure A7: x^* changes from x_I to x_τ and then to x_D as d increases. Finally, when the reward-punishment mechanism is weak and the national government is moderately pragmatic, i.e., (m, λ_N) lies in Region 4, the relationship between the equilibrium economic decentralization level and the policy preference divergence follows the pattern shown in Figure A8: x^* changes from x_I to x_τ and x_D and back to x_τ as d increases.

A.5 A SUMMARY

For a predatory national government or a less predatory national government in a country with a low x_0 , the national government chooses complete economic centralization. In this case, the SPNE economic decentralization level is always 0 and does not depend on political centralization levels, shown in Figure A1.

For a developmental national government in a country with a high x_0 , the other three SPNE economic decentralization levels are possible. Political centralization levels affect the SPNE economic decentralization levels for these cases, via strengthening the reward-punishment mechanism and reducing the policy preference divergence between the national and subnational governments. The levels of ideological adherence of the national government influence how the reward-punishment mechanism and policy preference divergence between the two levels of governments affect the economic decentralization levels.

An ideological developmental national government does not tolerate deviation behavior of the subnational governments. Thus, the national government either sets x^* at the deviation threshold (x_τ) or at x_I . Holding the policy preference divergence constant at d_0 , the relationship between the reward-punishment mechanism and the equilibrium economic decentralization level is shown in Figure A2. Holding the reward-punishment mechanism's strength constant at m_0 , the relationship between the policy preference divergence and the equilibrium economic decentralization level is shown in Figures A3 and A4, conditional on the strength of the reward-punishment mechanism.

The ways in which the political centralization level affects the economic decentralization level are more complicated for a pragmatic national government, because when the deviation threshold is low, such a national government allows the subnational government to deviate from the national government's economic policy agenda. Holding the policy preference divergence constant at d_0 , the relationship between the reward-punishment mechanism and the equilibrium economic decentralization level for a pragmatic national government is shown in Figure A5. Holding the reward-punishment mechanism's strength constant at m_0 , the relationship between the policy preference divergence and the equilibrium economic decentralization level for a pragmatic national government is shown in Figures A6, A7, and A8. Interestingly, for the pragmatic type of the national government, political centralization can lead to economic centralization via strengthening the reward-punishment mechanism and reducing the policy preference divergence.

Finally, how the relationship between the equilibrium economic decentralization level and the political centralization level depends on the ideological adherence of the national government is shown in Figures A9 and A10.

APPENDIX B

REGRESSION RESULTS

B.1 QUADRATIC EFFECTS OF POLITICAL CENTRALIZATION

Table B1. Nonlinear Correlations between Political Centralization and Fiscal Decentralization Levels Conditional on Autocratic Levels

	Fiscal Expenditure Decentralization	
	Within Effects	Between Effects
PC	0.173* (0.0869)	0.137 (0.481)
Autocracy	-0.0764 (0.0664)	0.0557 (0.265)
PC * Autocracy	-0.582* (0.241)	-1.216 (1.088)
PC * PC	-0.389** (0.123)	-0.616 (0.696)
PC * PC * Autocracy	0.953*** (0.235)	1.936+ (1.143)
Ln(Population)	0.118*** (0.0281)	0.0293* (0.0140)
Ln(GDP/PC)	0.0250** (0.00903)	0.0421 (0.0282)
Urban Pop. Share	-0.00485*** (0.000650)	0.00109 (0.00161)
Natural Resources	-0.00467*** (0.000445)	-0.00123 (0.00336)
Constant		-0.639+ (0.375)
No. of Obs.		819
No. of Groups		59
rho		0.937
Overall R2		0.486
Within R2		0.231
Between R2		0.525

Notes: Standard errors are in parentheses. + $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

B.2 POLITICAL CENTRALIZATION'S EFFECTS CONDITIONAL ON SOCIOECONOMIC FACTORS

Table B2. Correlations between Political Centralization and Fiscal Decentralization Levels
Conditional on Autocratic Levels and Socioeconomic Factors

	Fiscal Expenditure Decentralization	
	Within Effects	Between Effects
PC	0.286 (0.419)	8.812** (3.140)
Autocracy	-0.872 (0.624)	-1.040 (3.542)
Ln(Population)	0.158*** (0.0297)	0.0432 (0.0370)
Ln(GDPPC)	0.0111 (0.0151)	0.0699 (0.0735)
Urban Population Share	-0.00456*** (0.00114)	-0.00365 (0.00477)
Natural Resources Rents	0.000744 (0.00167)	0.0100 (0.0133)
PC * Autocracy	2.529* (1.009)	-13.55* (6.155)
Autocracy * Ln(Population)	0.0285 (0.0406)	0.0740 (0.137)
Autocracy * Ln(GDPPC)	0.118* (0.0559)	-0.119 (0.333)
Autocracy * Urb. Pop. Share	-0.0110* (0.00515)	0.00953 (0.0168)
Autocracy * Nat. Resources	-0.0264*** (0.00586)	-0.0211 (0.0396)
PC * Ln(Population)	-0.0616** (0.0238)	-0.383** (0.129)
PC * Ln(GDPPC)	-0.0101 (0.0370)	-0.547* (0.255)
PC * Urb. Pop. Share	0.0111*** (0.00277)	0.0221 (0.0151)
PC * Nat. Resources	-0.0111* (0.00497)	-0.0139 (0.0450)
PC * Autocracy * Ln(Pop)	-0.0721 (0.0626)	0.474+ (0.263)

PC * Autocracy * Ln(GDPPC)	-0.115 (0.0880)	1.157* (0.467)
PC * Autocracy * Urb. Pop. Share	-0.00404 (0.00792)	-0.0432 (0.0294)
PC * Autocracy * Nat. Resources	0.0418*** (0.00848)	0.00517 (0.0664)
Constant		-0.723 (0.918)
No. of Obs.		819
No. of Groups		59
rho		0.946
Overall R2		0.640
Within R2		0.342
Between R2		0.690

Notes: Standard errors are in parentheses. ⁺ p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001.

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