# Unexpected Legacies from the Rebellion: Fiscal Transitions in China, 1850s-1900s

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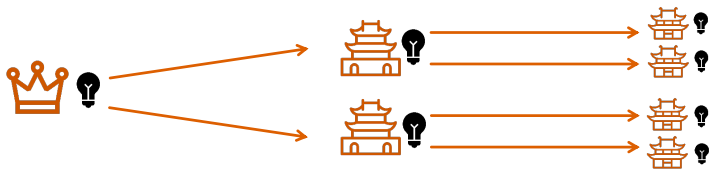
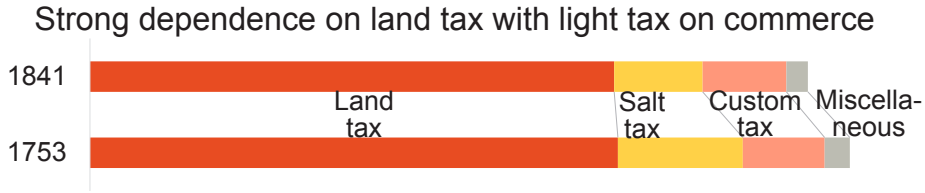
## SCENARIO SETTING, the Transition of Imperial Chinese Fiscal Regime in an Era of Political Disorder

### Pre-1850s: A Centralized Fiscal Regime

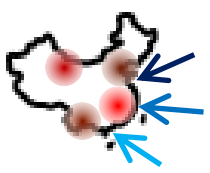
A strict hierarchy where local officials were merely subordinates



Strong dependence on land tax with light tax on commerce




Continuous international wars

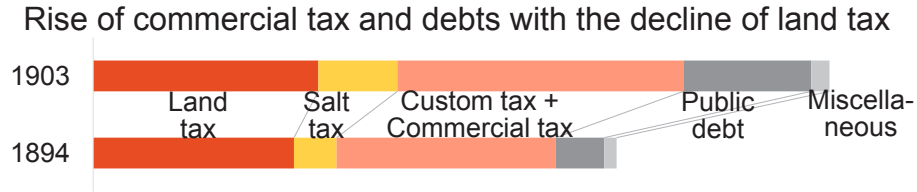


Simultaneous devastating rebellions

### Post-1880s: A Decentralized Fiscal Regime

Local governments with great fiscal autonomy

Rise of commercial tax and debts with the decline of land tax




## RESEARCH FOCUS, the Impact of Taiping Rebellion on the Rise of *Lijin* as a Local Commercial Tax

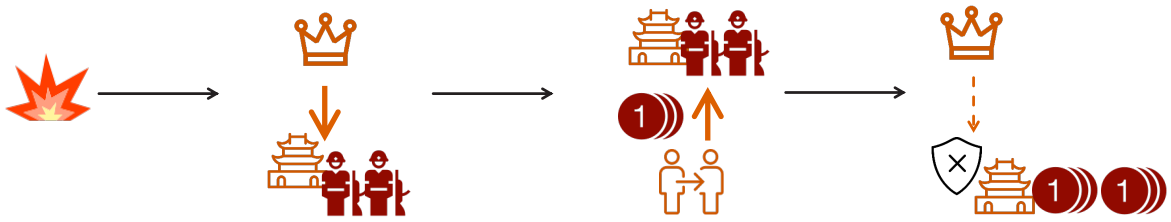
**Question:** Regarding the driving forces for fiscal transitions, what was the role of Taiping Rebellion?

The largest internal war in Chinese history

- 12 provinces occupied
- 171M silver taels spent in war
- 14 years for suppression
- 70M casualties

**Hypothesis:** Taiping Rebellion led to the rise of local fiscal autonomy, especially the bouncing commercial tax revenue, *lijin*, as a local fiscal resource since 1850s.

**Mechanism:**



The central government, given the scarce fiscal resource and the inability to suppress the riots, had to delegate its power to local governments by encouraging their private militias.

To finance the private militias, local governments started levying *lijin* from commercial activities; this autonomous and considerable local fiscal revenue made the local governments out of the central control.


## EMPIRICAL STRATEGY, the Linkage between the Intensity of War and the Scale of *Lijin* Later on

### Cross Sectional Data for 175 prefectures in China Proper

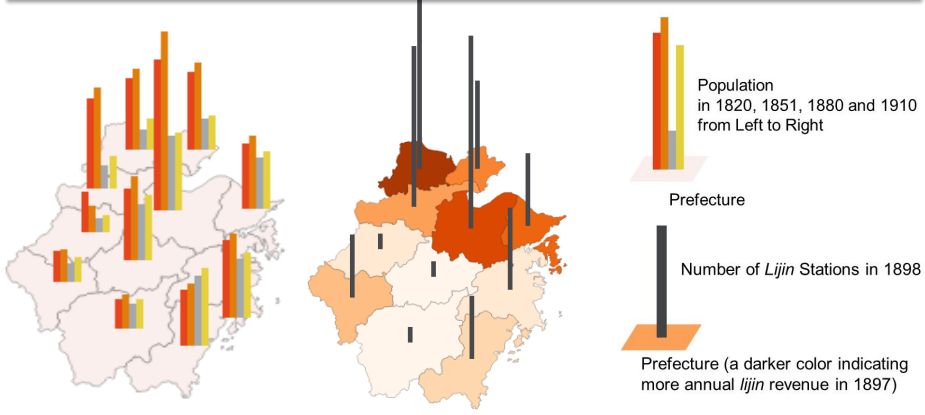
$$Lijin_i = \alpha + \beta\, Rebellion_i + \gamma\, Controls_i + \varepsilon_i$$

Measured by the **share of *lijin*** in total tax revenue, or the per capita owned **number of *lijin* stations** in the prefecture in 1890s

Measured by the lasting **years** of disorder, the **severity** of war, or the total **population loss** from 1850s to 1880s

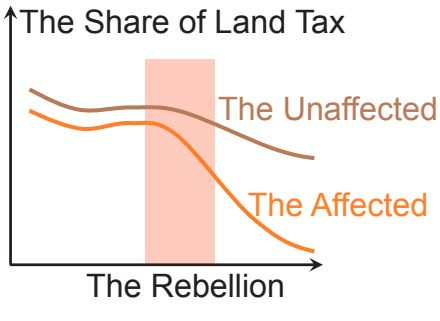
Other factors that might influence the scale of *lijin* (initial economic and geographic conditions, access to water, etc.)

### Descriptive Results (Zhejiang Province as an Example)



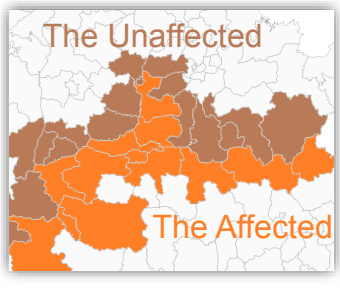

## EXTENSION OF CURRENT STUDY, Possible Further Econometric Methods for Causal Inference

### Alternative 1: Difference in Difference




- Set the Taiping Rebellion as a treatment and divide prefectures in China Proper into two groups.
- The affected prefectures should experience more decline of land tax's share because of the newly emerging *lijin* revenue.

### Alternative 2: Regression Discontinuity Design




- Take the border of Taiping regime as an exogenous shock and divide the prefectures along the border into two groups.
- The affected prefectures should experience significant decline of land tax's share and the rise of *lijin*'s.

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