

中国人民大学

# 中国经济发展 研究报告 2008

贯彻落实科学发展观的财政制度与政策选择



RENMIN UNIVERSITY OF CHINA


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FISCAL SYSTEM AND POLICY OPTIONS ADHERING TO  
THE SCIENTIFIC VIEW OF DEVELOPMENT

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读者的广泛关注，产生了较大的社会影响，成为我校一个重要的学术品牌，  
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于这样的责任和信心，加上近一年的努力，我们又编写出版了中国人民大学  
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由于报告所涉及的问题大多具有重大、复杂和前沿性的特点，加上写作与出版周期较短及研究水平的局限，尽管我们尽了努力，报告中的不足或易引起争议的地方仍在所难免，欢迎专家和学者批评指正。

中国人民大学发展研究报告编委会

2008年5月28日



## **Abstract**

### **I . The Fiscal Policy Options for Innovative Economic Growth**

This report attributes innovative economic growth to three aspects; innovative human resources, innovative subjects, and innovative environment, which are the channels for fiscal policies to promote innovative growth. This report carries out an empirical study on the roles of the three channels in China's economic growth, and draws basic conclusions as follows.

(1) For the aspect of innovative human resources, it is very necessary to increase human capital endowment in backward areas and facilitate innovative human resources to flow into the middle and west areas, such that the regional economic gaps can be narrowed. And it is the key for economic growth to train and increase innovative human resources in both the backward areas and developed areas.



(2) For the aspect of innovative subjects, market-oriented research and development activities have contributed significantly to China's economic growth, but the amount of market-oriented research and development activities has not reached its optimal level. Also, comparing the outcomes of fundamental R&D and applied R&D, it is clear the former contribute more to economic growth.

(3) For the aspect of innovative environment, there is a two-way causality between the hard environment for innovation and the amount of innovative activities, and the two compensate each other. The soft environment for innovation is highly correlated with investment in research and development. Lacking the soft environment would cause the middle and west regions to lag behind the east regions, even with favorable policy treatment. Our policy suggestions are based on the above conclusions.

## II. Fiscal Decentralization and Economic Growth

Based on the results from previous studies and the results from studying a panel dataset ranging from 1978 to 2004, this report explores the role of fiscal decentralization in economic growth, and provides suggestions for China's fiscal system's further reform. We hold the view that before the tax sharing reform, China's fiscal decentralization didn't promote and may have even hampered its economic growth. After the tax sharing reform, China's fiscal decentralization has indeed contributed to economic growth, although the set-up of fiscal decentralization needs to be improved as the market-oriented process moves forward.

The set-up of fiscal system embodies the effect of fiscal decentralization on economic growth eventually. The negative effect of fiscal decentralization on economic growth probably is due to the problems in the set-up and carrying out process of budget system. As the result, the next step of China's fiscal reform should focus on how to perfect the set-up and process of fiscal decentralization reform. Only by doing so, the potential benefits of fiscal decentralization to economic growth can be fully realized. Therefore, our poli-



cy suggestions are as follows.

(1) Eliminate the existence of extra-budgetary funds. The existence of extra-budgetary funds on one hand weakens the revenue base of the central government, on the other hand leads to arbitrary exaction of fees and requisition of donations.

(2) Explicitly specify governments' responsibilities, and clearly define property rights and duties. The focus of fiscal decentralization should shift from the narrowly defined revenue sharing to coordinated arrangement of property rights, duties and revenues, which consequently shifts governments' attention from fighting for fiscal interests to providing better public goods and services, especially to increasing spending on areas such as education, health care and science, and thus sustains long run economic growth.

(3) Improve the transfer payment system among governments, and modify the fiscal relations between the central government and local governments.

(4) Strengthen local governments' accountability to their behaviors by establishing specific evaluation standards, and require that all levels of governments present accurate and comprehensive spending report.

### **Ⅲ. Optimize the Taxation System to Promote Harmonious Society**

Building a harmonious society has become the core of China's social and economic development. However the existing taxation system has been outdated in many aspects and thus cannot meet the demand of a harmonious society. For example, major tax types are out of balance, which weakens the functions of tax in promoting fairness and efficiency. Secondary tax types are not set-up reasonably, and the adjustment function of tax is not working. The inherent deficiencies in main tax types' mechanism result in negative effect.

Adhering to the principles of "simplify tax system, broaden tax base,



lower tax rates, and rigorous tax collection”, tax system reform should give full consideration to what are needed to build a harmonious society, and coordinate various relations in the operation of the tax system, such that a taxation mechanism which promotes economic and social development in a harmonious way can be formed.

(1) China needs to complete the value-added tax reform, and improve the efficiency of economic development. Firstly, China should expand value-added tax deduction to all areas as soon as possible, and coordinate sectoral and regional economic development. Secondly, China needs to expand the industrials subject to value-added tax, and extend it to service sector, and eventually cover most of economic activities. Thirdly, upon expanding the amount of general taxpayers for value-added tax, China needs to reduce the tax burden of small taxpayers.

(2) Complete the reform of consumption tax, and promote fair allocation and optimization of resource allocation. Firstly, China needs to adjust and increase the consumption tax on goods that use up non-renewable or barely-renewable resources. Secondly, China should expand consumption tax to more luxury goods and high-end consumption goods, and promote fair income distribution.

(3) Complete the reform of business tax, and promote economic and social fairness.

(4) Improve the regulations on individuals' income tax, and promote fair income distribution. To optimize individuals' income tax, we mainly needs to cut down tax rate appropriately, reduce the number of tax brackets, and standardize tax base, such that we can improve individuals' income tax revenue and adjusting ability, as well as further promote fair income distribution.

(5) Increase the number of secondary tax types, and construct a scientific income and monitoring system. Firstly, China should improve the real estate tax, and further promote fairness at the stage of property possession. Secondly, China needs to collect social security tax, and provide assurance for social security. Thirdly, China should better its resource tax, and pro-

mote resource saving and sustainable usage.

(6) Carry out “green tax system” to all areas and promote sustainable economic growth.

#### **IV. The Fiscal System to Ensure Income Distribution Adjustment**

How the fiscal revenue redistribution system adjusts income distribution relations not only needs to consider the objective of social fairness, but also needs to consider the efficiency objective, so both objectives can be achieved. After having surveyed a large amount of data, this report demonstrates that although governments allocate a large amount of fiscal revenue on income redistribution, the functions that government protect social fairness and promote efficiency via income redistribution are weakening, due to inherent problems in the system. Under this condition, it is difficult for China to adjust income distribution relations and achieve the goal of unifying fairness and efficiency merely by increasing spending. Based on the above arguments, it is clear that the issues such as disorder in income distribution, the reversal adjustment in income redistribution, and the direction and form of transfer payments all result from the failures in the system. Therefore, we imminently need to reform our public management system, fix the loopholes by bettering the system, streamline various mechanisms, and achieve the unification of efficiency and fairness.

(1) As to the issue of income distribution disorder, we need to start from establishing standard and transparent systems, and then investigate rigorously various gray income generating and public fund eroding loopholes in fiscal system, financial system, administrative management, land and state-owned resources management system. We also need to borrow advanced experiences from other countries, and gradually form the reform blueprint.

(2) As for the issue of “reversal adjustment” in income redistribution, we need to call off the social security system which rates people according to



their social status, disconnect social security and residents' status, and establish a social security system which is equal to all citizens.

(3) As for the issue of improving income redistribution efficiency, because the middle class has sustainable and higher marginal consumption propensity, we need to expand consumption by redistributing income, and the top task is to expand the middle class, and turn more low income people into middle income people.

## **V. Focus on Optimizing the Structure of Fiscal Spending on People's Livelihood**

After reviewing the transformation of China's fiscal spending structure since its opening up, this report then incorporates the important spirit of emphasizing on people's livelihood stated in the Report to 17th National Congress of the CPC. Improving people's livelihood requires a substantial amount of fiscal funds. First, the government should continue to increase its spending on education. Second, the government needs to fill in the blank areas uncovered by the health care sector, and this task is in increasing demand for fiscal funds. Third, the government also face huge pressures to keep the Basic Endowment Insurance program running. Fourth, to achieve the social objective of providing housing for all citizens, the government must increase its housing subsidies to low-income people.

With regression analysis, this report studies fiscal spending patterns of the US, UK, Canada and Japan respectively in their economic development stages comparable to China's current economic stage. Then we take China's specific conditions into consideration, propose an ideal fiscal spending structure for China up to 2020. We further hold the view that a successful transition into this spending structure mainly depends on the spending adjustment of revenue increases. That is, each year the government should spend most of increased fiscal revenue on people's livelihood such as education, health care, elderly care and housing. At the same time, we estimate the target annual growth rates of various fiscal spending needed to attain the proposed

fiscal spending objectives.

According to our specifications, in 2020, of China's total fiscal spending, 20%~25% of it should go to maintaining economic health, 18%~20% to education, 20%~25% to social security, and 15%~18% to administrative management. At the same time, we can estimate the amount for various expenditures in 2020. To achieve above goals, the annual growth rates of spending on the economy, education, social security and administrative management should be 7.3%~9.1%, 12.9%~13.7%, 14.5%~16.3% and 10.1%, respectively.

## **VI. The Central Government's Transfer Payments and Local Governments' Public Service Provision**

This report first examines the effect of the central government's transfer payments in promoting the development and equalization of local public service provisions. Then in this report we construct a theoretical model to examine the determinants of central governments' transfer payment, starting from a general objective function of the central government. We further investigate the determinants of central government's transfer payments with a panel data model, and reveal the reasons why the central government's transfer payments fail to effectively equalize local public health care service from the perspectives of fairness and efficiency. The analysis suggests that the central government's transfer payments help to equalize provincial public health care services, but widen the provincial differences in public basic education, especially transportation infrastructures. In addition, the central government's transfer payments contribute to the growth of public transportation infrastructures, but restrain the developments of public health care and basic education.

Therefore, for the central government's transfer payment to be able to equalize local public services and promote the development of local public services at the same time, which leads a higher social welfare level, we need to better China's transfer payment pattern and optimize its transfer payment



structure.

(1) Further explicitly specify the objectives of the central government's transfer payment, and make promoting the equalization and growth of local basic public services a top task for central government's transfer payment. At the same time, China should establish a set of system that consists of scientific and reasonable standards for public spending and procedures to evaluate the effectiveness of transfer payments as soon as possible, such that allocation and usage efficiency of funds can be improved.

(2) China should gradually cancel tax rebates, and instead increase the amount of general transfer payments, clean up various specific transfer payment programs, and optimize transfer payment structure. At the same time, China needs to perfect the fund allocation procedures of general transfer payments and specific transfer payment programs, and make the process more scientific, fair and transparent.

(3) China should deepen its tax system reform, strengthen institutional innovation, and actively expand the hierarchy fiscal management system, such that it can provide institutional guarantee for the central government's fiscal transfer payments to fully exert effects.

## **Ⅶ. China's Traditional Cultural Values, Human Capital Accumulation and Family Elderly Care Guarantee Mechanism**

This report builds a human capital accumulation model, in which we examine how the family elderly care guarantee mechanism driven by traditional cultural values and the social elderly supporting system affect family elderly care and human capital investment behavior, as well as economic growth. The results indicate that traditional cultural values combine the elderly care guarantee and the young generation's human capital accumulation together organically, and thus provide a good mechanism for family elderly care guarantee and human capital's endogenous accumulation. The cash-in-Cash-out type of social security system is not beneficial to human capital accumulation

and economic growth. Secondly, we conduct an empirical research based on China's current data, and the results indicate that social elderly care system has evident refraining effect on China's human capital accumulation and economic growth; instead, a smoothly-run family elderly care guarantee mechanism contributes to human capital accumulation and economic growth.

The above conclusions indicate that in the process of improving its social elderly care guarantee system, China should clearly realize how this system affects human capital accumulation, long run economic growth, and traditional cultural values. At the same time, China should not ignore the significance of family elderly care guarantee mechanism. That is, in China, a country with Confucian Ethics as its core cultural values, family's voluntary elderly care and human capital investment behaviors provide an effective mechanism for family elderly care guarantee and human capital's endogenous accumulation. This mechanism not only can effectively contribute to long run economic growth and alleviate the elderly care pressure brought about by China's aging population, but also more importantly establish a close interest-sharing tie among family members, which creates more harmonious family relations, promotes Chinese traditional virtues, and contributes to harmonious society.

Of course, emphasizing on the importance of the family elderly care guarantee mechanism does not mean that the social elderly care guarantee system should be replaced completely. Instead, we just call people's attention on whether the government can afford and carry out the promised social security duties, given China's current situation-including current economic development stage, the demographics of its population (especially the amount of aging population and rural population), and the government's limited resources.

## **VIII. The Determinants of the “Urban and Rural Subsistence Allowance” and Policy Options**

This report takes China's “urban and rural subsistence allowance” as an example, and studies the variations in local governments' fiscal behaviors.



There are two important findings. From the perspective of local governments, the “urban and rural subsistence allowance” is a normal good, and its regional differences result from the differences in local governments’ fiscal resources. With respect to the quantity demanded for public goods, the amount of people who need the allowance is an important explanatory variable for regional allowance differences. Our findings have important policy implications for the subsistence allowance program. That is, to eliminate regional allowance differences and improve the amount of allowance, the central government should take charge of the subsistence allowance program.

Since entering this century, during a span of a couple of years, China has established the social assistance program and quickly expanded it to the whole country, making it a vital component of social safety. In short run, the program would greatly reduce the livelihood difficulties faced by the poor, and help to maintain social stability. In the long run, the “subsistence allowance” helps to maintain the health of people in need, and ensures the children from poor families to receive education, and thus has important implications for long run economic growth.

Nonetheless, while achievements are shining, China also faces a series of problems that need to be solved. To a certain degree, the whole assistance program needs to be redesigned.

(1) Reduce tax burden of assistance-receivers. Specifically, it means to reduce the marginal tax rate of assistance-receivers when they find jobs, making working a profitable option.

(2) To resolve the wild-spread insurance fraud, it is necessary for the government to keep record of citizens’ income and asset information. Once the government establishes an income and asset information database at the country level, it can easily look up the records of individuals’ income and assets, and thus improve the accuracy of social assistance program.

The above measures can effectively solve the conflicts between governments and assistance receivers, but cannot cure the existing problems of low assistance amount and large regional disparity. To solve the problems, one way is to increase transfer payments to regions with insufficient fiscal reve-

nues; another way is to let the central government takes charge of social assistance program and apply uniform standards throughout the country, such that the central government can eliminate regional disparity as well as improve allowance amount.

## **IX. Rural Poverty and Fiscal Poverty Alleviation**

For the past three decades, China has scored huge achievements in alleviating rural poverty and cutting down significantly the amount of rural population in poverty. The large drop of rural poor population is accompanied by carrying out China's rural poverty alleviation strategy and the influx of a large amount of poverty alleviating funds. It is tempting to conclude that poverty alleviating funds are effective based on the coexistence of poor population reduction and poverty alleviating funds increases. However, after studying and comparing time series data on rural poor population and fund usage, along with analyzing the results from relevant empirical studies in depth, we find that government spending on rural poverty alleviation has no significant effect on the fall of rural poor population. The reasons can be attributed to lack of accuracy in allocating poverty alleviation funds, and lack of measures in current poverty alleviating policies to help peasants to deal with income risks.

To improve the effectiveness of poverty alleviating policies, we have the following suggestions:

- (1) Carefully analyze the reasons for different regions or different groups to fall into poverty, and carry out poverty alleviation programs accordingly.
- (2) Improve the efficiency in poverty alleviation funds' allocation and usage.
- (3) Emphasize on the poor population in non-poor regions.

## **X. Public Health Care Spending and Improvements in Health Status**

This report uses a health production model and provincial panel data



from 1997 to 2006 to investigate the relationship between China's public health care spending and the improvements in health status of the population. This report thus provides theoretical support and empirical evidence for stipulating and carrying out various public policies for the forthcoming health care reform in 2008. We find that public sanitary and health care spending is a key factor to the population's health status, and there are evident regional differentials on the effects of public sanitary spending on people's health status. Therefore, the sanitary and health care reform should accommodate local needs, and the central fiscal department needs to establish an indicator system to review local governments' effectiveness in managing public sanitary and health care funds.

Under the background of building harmonious society, we propose the general reform guidelines for fiscal policy to promote public sanitary and health care as follows.

(1) Under the background of building a harmonious society that sustains long run growth, policy makers should give the objective of "being health" a strategic importance, and shift the objective of providing public health care service from "being sanitary" to improving mass health status.

(2) By further improving fiscal funds' management, China can establish a public sanitary and health care spending system directed by the government. Firstly, China needs to appropriately divide the duties among various levels of governments. Secondly, China needs to appropriately divide property rights. Thirdly, China should increase the amount of general transfer payments.

(3) Establish a reasonable and effective mechanism to guarantee public sanitary and health care spending, and solve the problem of insufficient funding.

(4) Construct the guarantee mechanism to fund rural public sanitary and health care, and eliminate the divergence between rural and urban areas.

(5) Improve the transfer payments programs, and reduce regional differentials in public sanitary and health care spending.

(6) Reform the budget system, and improve the effectiveness of public