

Reform and Evolution of China's Budget Management System from 1949 to 2019

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Abstract. The Chinese government's budget system began in the late Qing Dynasty and started in the Republic of China formally. It was not until the founding of New China that a relatively clear national budget management system was established. Generally speaking, the reform of government budget system from 1949 to 2019 can be divided into four stages: firstly, the reform of government budget system in the planned economy period (1949-1978); secondly, the reform of government budget system in the period of economic restructuring (1978-1998); thirdly, the reform of government budget system in the context of public finance (1999-2013). The fourth is the reform of government budget system under the background of modern finance (from 2013 to the present). The Nineteenth National Congress of the Communist Party of China has made important arrangements for the establishment of a modern budget system in line with the modern financial system. On the occasion of the Seventieth Anniversary of the founding of the People's Republic of China, it is of great significance for China to review and summarize the evolution of the reform of the government budget system in the past seventy years.

Keywords: Government budget; Economic restructuring; Extra-budgetary funds.

1. The Transition of Government Budget System

Since the 70th anniversary of the founding of New China, China's budget management system has undergone a transformation from a highly centralized financial budget management system characterized by unified collection and expenditure to a public budget system consistent with the market economy. Especially in the Third Plenary Session of the Eighteenth Central Committee, the CPC Central Committee clearly pointed out that the establishment of a modern financial system is the goal of deepening the reform of the fiscal and taxation system. On this basis, the report of the Nineteenth National Congress further proposed that a comprehensive, standardized, transparent, scientific and binding budget system should be established. According to the transformation of China's social and economic development and the characteristics of the development and change of the government budget system itself, the changes of the government budget system since the founding of the People's Republic of China in the past 70 years can be divided into the following four stages.

1.1 Planned Economy Period (1949-1978)

The founding of New China in 1949 witnessed a long period of turbulent war and the initial stage of the founding of New China. The tax system has not yet been sound, the fiscal revenue can not meet the expenditure, and the deficit is large. In order to reverse this situation as soon as possible and establish a unified fiscal revenue and expenditure system, Article 40 of the Common Programme of the Chinese People's Political Consultative Conference (hereinafter referred to as the Common Programme) adopted by the First CPPCC in September 1949 clearly puts forward the following proposals: to establish a national budget and final accounts system, to divide the financial scope of the central and local governments, to strictly simplify and economize, to gradually balance fiscal revenue and expenditure, and to accumulate the country. Home production funds. Thus the central government began to work out the annual national budget. On December 27, 1949, the State Council of the People's Republic of China officially issued the Directive on Financial Finals of 1949 and Budget Preparation of 1950, requiring governments at all levels and enterprises directly under the Central Government to prepare the final accounts of revenue and expenditure of 1949 and the budget of 1950, as well as specifying the specific methods and requirements for budgeting. In August 1951, the State Council promulgated the Provisional Regulations on Budget Final Accounts (hereinafter

referred to as "Regulations"), the first special regulation of the People's Republic of China on the state budget, in accordance with Article 40 of the Common Programme.

The Regulations stipulate the organizational system of the national budget, the budgetary power at all levels, the budgeting preparation, examination and approval at all levels, and the procedures for the preparation and approval of final accounts. The promulgation of the Budget Regulations and other regulations marks the preliminary establishment of our own government budgetary system and the preliminary formation of the budgetary system of the new Chinese government. With the promulgation and implementation of the above-mentioned budgetary laws and regulations, China's government budget system was initially established, which played a great role in raising construction funds and promoting socialist transformation.

It can be said that from 1949 to 1953, China's budget management system experienced a relatively stable and slow construction period. Since 1953, China has carried out large-scale economic construction and three major reforms of means of production ownership. After three major reforms, China has established a socialist economic system and a highly centralized planned economic system. Therefore, a centralized government budget system has been formed. From 1953 to 1978, due to some external reasons, some changes have taken place in the economic and budgetary systems of our government, but the planned economic system characterized by highly centralized power has not changed fundamentally.

Generally speaking, from 1949 to 1978, China was in the period of coexistence of national economic recovery and planned economic system. Due to the influence of various internal and external factors, the government budget system was only a subsidiary of highly centralized planned economic system. Its main characteristics were "highly unified, collecting and controlling expenditures", and there was no relative independence and autonomy. It could not exist without planned economy.

1.2 Economic Transition Period (1978-1998)

The Third Plenary Session of the Eleventh Central Committee of the Communist Party of China held in 1978 marked the comprehensive reform of China's economic system, as well as the formal transition from a highly centralized planned economy to a socialist market economy. In contrast, the planned financial model has gradually been transformed into the market financial model. Budget management system, as an important feedback of government activity plan, has also begun a difficult initial stage. The reform measures in this period mainly include the following aspects:

1.2.1 Restoring the Rule of Law in Budget Management System

After the founding of New China, in order to ensure the normal operation of the national economy, the Common Programme adopted by the First CPPCC in 1949 and the Provisional Regulations on Budget Final Accounts issued by the State Council in 1951 all made preliminary legal provisions on the budget system of our country. However, influenced by many factors, the budget system of our country did not play its role in a long period of time, and was destroyed during the "Cultural Revolution". In 1980, Wang Binqian, then Minister of Finance, made a report on the 1979 State Accounts, the 1980 Draft State Budget and the 1981 State Budget Estimate at the Third Session of the Fifth National People's Congress, which marked the restoration of the budget system. With the deepening of reform and opening up, in the field of budget, the original institutional arrangements can no longer meet the growing requirements of economic and social development for the rule of law. To this end, the State Council promulgated the Regulations on State Budget Management in October 1991. On March 20th, 1994, the Second Session of the Eighth National People's Congress deliberated and adopted the Budget Law of the People's Republic of China and decided to put it into effect on January 1st, 1995. At the same time, the original Regulations on State Budget Management were abolished. The promulgation and implementation of the Budget Law of the People's Republic of China and the Regulations on State Budget Management marks that the budget management system of our country has formally entered the stage of legalization, which is of great significance to the transformation of our economic system.

1.2.2 Focus on the Management of Extra-budgetary Funds

After the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China, in order to mobilize local enthusiasm and build a socialist market economy, the central government began a large-scale reform characterized by decentralization and concession of power and benefits, putting funds originally within the budget into extra-budgetary management. Although these reform measures have mobilized local enthusiasm to a certain extent, they have also rapidly intensified the extra-budgetary funds of local departments, enterprises and institutions, resulting in serious dispersion of funds. With the deepening of reform, drawbacks gradually emerge. Excessive extra-budgetary funds, due to the lack of effective management, reduce the efficiency of economic operation, cause waste of resources, aggravate the central financial difficulties, weaken the central government's regulatory capacity, and the negative effects gradually exceed the positive effects.

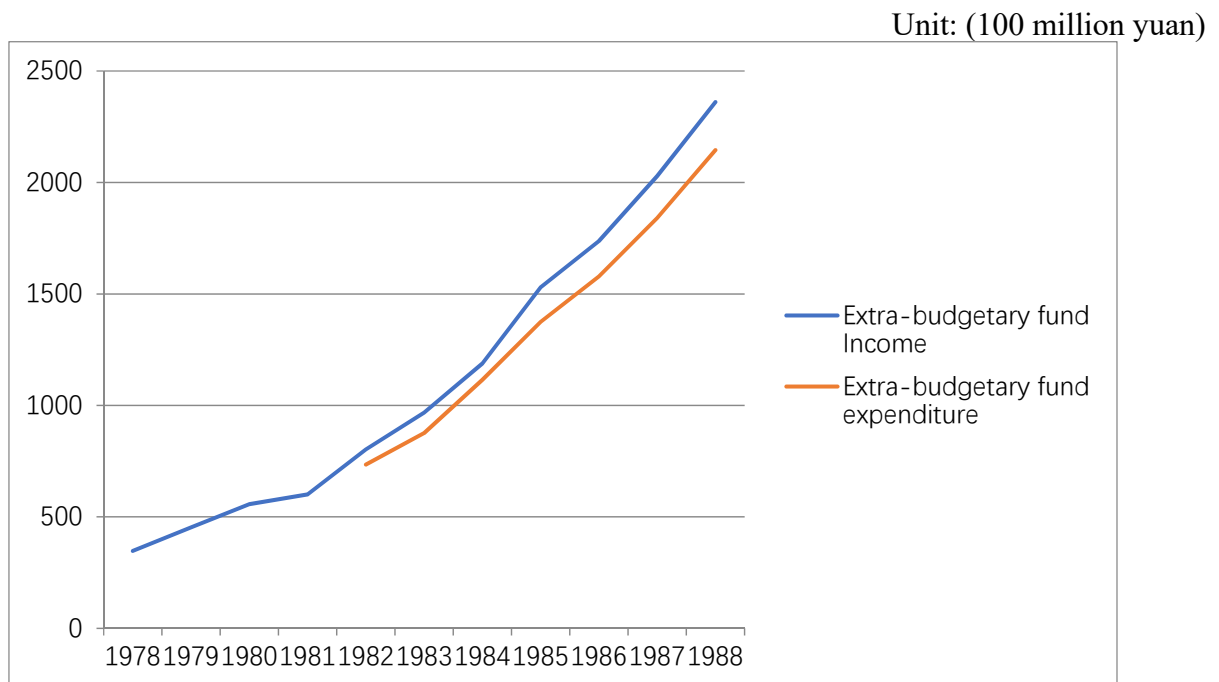


Figure 1. The Income and Expenditure of Extra-budgetary Funds in China from 1978 to 1988
Data Source: According to the data of the official website of the National Bureau of Statistics, the data of extra-budgetary funds expenditure from 1978 to 1981 are not published.

To this end, the state began to strengthen control and supervision of extra-budgetary funds. In 1986, the State Council issued the Notice on Strengthening the Management of Extra-budgetary Funds. In July 1996, the State Council again issued the Decision on Strengthening the Management of Extra-budgetary Funds (hereinafter referred to as the Decision). The Decision strictly defines extra-budgetary funds as financial funds. It requires all government departments and institutions to submit plans for the revenue and expenditure of extra-budgetary funds to the financial departments, and puts forward the basic management mode of "two lines of revenue and expenditure", which points out the basic direction for the management of extra-budgetary funds. In order to adapt to this situation, the Ministry of Finance has formulated supporting documents such as "Measures for the Implementation of the Management of Extra-budgetary Funds" and "Interim Provisions for the Management of Financial Accounts of Central Budget Funds", so as to make the standardized management of extra-budgetary funds operable.

1.2.3 Exploring Double Budget Compilation

Since the founding of the People's Republic of China, China has adopted the single-form budget formulation, that is, to put all the state's fiscal revenue and expenditure in a unified budget. After the Third Plenary Session of the Eleventh Central Committee of the Party, the distribution pattern of macro-economy has changed greatly, and the structure of fiscal revenue and expenditure has changed

accordingly. In order to balance the state's fiscal revenue and expenditure and solve financial difficulties, the state must take decisive measures in strengthening budget management. Implementing double budget is a major reform to strengthen budget management. Article 26 of the Regulations on the Administration of State Budget promulgated by the State Council in October 1991 clearly stipulates that "the state budget is formulated in accordance with the double budget and is divided into regular budget and constructive budget." The Decision of the Central Committee of the Communist Party of China on Several Questions Concerning the Establishment of a Socialist Market Economy System in 1993 calls for the improvement and standardization of the double budget system, the establishment of government public budget and state-owned capital operating budget, and the establishment of social security budget and other budgets as required. The Budget Law, passed in 1994, requires governments at all levels to prepare their budgets in accordance with the double budget. The Implementation Regulations of the Budget Law of 1995 further divides the double budget into government public budget, state-owned assets operation budget, social security budget and other budgets. The compilation of double budget is an important attempt to deepen China's financial reform at this stage.

1.3 Public Finance Period (1999-2013)

In 1998, our government formally proposed the establishment of the basic framework of public finance, which marks a new stage of deepening the reform of the financial system. A new round of government budget system reform has also been launched. Since 1999, our country has begun the reform of government budget publicity, which also marks that our government budget reform has entered a "budget era" of building a modern budget system framework that is compatible with the socialist market economic system and public finance system. At this stage, China's budget reform measures mainly include the following aspects.

1.3.1 Implementing Departmental Budget Reform

In order to standardize and manage the work of the central budget, in June 1999, the Audit Office, on behalf of the State Council, put forward suggestions on improving the work of the central budget preparation at the tenth meeting of the Standing Committee of the Ninth National People's Congress, which called for strict implementation of the Budget Law and timely approval of the budget. According to the above opinions, the Ministry of Finance began to reform the budgeting method and promote the reform of budget management. On September 20th, 1999, the Ministry of Finance issued Opinions on Improving the Central Budget for 2000 (hereinafter referred to as Opinions). The Opinions require central departments to change their budgeting methods and prepare departmental budgets, which reflect all revenue and expenditure of their departments in accordance with the unified provisions and requirements of the Ministry of Finance. In the Opinions, the Ministry of Agriculture, the Ministry of Education, the Ministry of Science and Technology and the Ministry of Social Security are selected as pilot units, and the budget of the departments is submitted to the National People's Congress the following year. In 2005, the Ministry of Finance issued the "Measures for the Performance Evaluation and Management of Budget Expenditure in Central Departments" (hereinafter referred to as the "Measures"), which further improved the management methods of basic expenditure and project expenditure in department budget reform. This is the first attempt since the founding of New China. It is another institutional innovation in fiscal expenditure management system in China after the reform of tax-sharing financial management system.

1.3.2 Reforming Treasury Collection and Payment System

Since 1999, China began to promote the reform of centralized treasury collection and payment system. In February 2001, the State Council adopted the Pilot Plan for the Reform of the Financial Treasury Management System jointly formulated by the Ministry of Finance and the Central Bank, which established the objectives, guiding principles, contents, supporting measures and implementation steps of the reform of the financial treasury management system in China. In the reform plan, it is clearly pointed out that the goal of the reform of China's fiscal treasury management system is to establish a fiscal treasury management system based on the single account system of the

Treasury and the centralized collection and payment of the treasury as the main form of fund transfer. In 2002, the Ministry of Finance and the People's Bank of China jointly issued the Measures for the Management of Payment of Funds for the Pilot Reform of the Financial and Treasury Management System of Central Units. By the end of 2007, all departments of the central government and more than 9300 grass-roots budget units have implemented the reform of centralized treasury collection and payment system; 36 provinces, autonomous regions, municipalities directly under the Central Government and cities with separate plans, more than 300 prefectures and cities, more than 1300 counties (districts), and more than 230,000 grass-roots budget units have implemented the reform. The successful implementation of the reform of centralized treasury collection and payment system has laid a solid foundation for the establishment of modern treasury management system in China.

1.3.3 Implementing the Government Procurement System

In order to regulate government expenditure and improve the efficiency of fund utilization, the Law on Government Procurement of the People's Republic of China was adopted at the 28th meeting of the Standing Committee of the Ninth National People's Congress on June 29th, 2002. On the basis of centralized treasury management system, a centralized and transparent government procurement system was established to solve the problem of the use of financial funds, which marked the government procurement in China. It has formally entered the process of legalization. Before that, the procurement of each expenditure unit was carried out separately, and the drawbacks were obvious. After the establishment of centralized government procurement, a system of laws and regulations with the "Government Procurement Law" as the core has been established, the scale of government procurement has been expanded, and the budget system of government procurement for central units has been established, which effectively ensures the fairness, openness and efficiency of the use of financial funds.

1.3.4 Reforming the Classification of Government Revenue and Expenditure

The original classification method of government budgetary revenue and expenditure in China was determined by referring to the Soviet model in the planned economy period. Although some adjustments have been made later, the basic classification method has always been quite different from that of market economy countries. Since 1999, the Ministry of Finance has begun to study how to construct a classification system of government revenue and expenditure suitable for the requirements of public finance management. In 2004, the Ministry of Finance completed the preliminary design of the new Reform Plan of Classification of Government Income and Expenditure. In March 2005, the Ministry of Science and Technology, the Ministry of Water Resources and other central ministries and commissions, as well as Tianjin, Hebei, Hainan, Hunan and Hubei provinces, began to conduct pilot projects throughout the country on January 1st, 2007.

1.4 Modern Financial System Period

The Third Plenary Session of the Eighteenth Central Committee of the Communist Party of China regards finance as the foundation and important pillar of state governance. The establishment of this new orientation requires the establishment of a modern financial system. "Improving budget management" is one of the important contents of establishing modern financial system. Since then, the reform of budget management system has entered a new stage to meet the requirements of modernization of national governance.

1.4.1 Establishing Full-caliber Budget Management System

On August 31st, 2014, the 10th Session of the Standing Committee of the Twelfth National People's Congress adopted the newly revised Budget Law, clarifying the reform direction of "establishing and perfecting a comprehensive, standardized, open and transparent budget system", and establishing a budget system with Chinese characteristics in the form of law for the first time. The Budget Law deletes the content of extra-budgetary funds and requires full-scale budget management. Article 5 of the Budget Law directly stipulates that "budget includes general public budget, government fund budget, state-owned capital operation budget and social insurance fund

budget". As a result, China has formally established a full-caliber budget management system for the four budgets. The system requires that the four budgets should maintain a certain degree of integrity and independence, and the other three budgets should maintain the coherence with the general public budget, highlighting the dominant position of the general public budget.

1.4.2 Establishing the Inter-annual Balance Mechanism

On November 12th, 2013, the Third Plenary Session of the Eighteenth Central Committee of the Communist Party of China adopted the Decision of the Central Committee of the Communist Party of China on Several Major Issues Concerning the Comprehensive Deepening of Reform. The Decision calls for the establishment of an inter-annual budget balance mechanism and an accrual-based comprehensive government financial reporting system. The inter-annual budget balance mechanism is to forecast multi-year fiscal revenue and expenditure in conjunction with the opportunistic changes of fiscal policy in budget decision-making so as to realize the transformation of budget revenue and expenditure from compulsory restraint to expectation, and to emphasize the general balance of budget revenue and expenditure in a dynamic economic cycle rather than the balance of revenue and expenditure in the annual budget so as to take account of the adverse cycle of budget. Periodic adjustment and budget balance in the economic cycle. Breaking through the constraints of annual budget balance, the cross-annual balancing mechanism can break through the shortcomings of sudden spending at the end of the year to a certain extent, reduce the short-term effect of expenditure, and highlight the medium and long-term goals of national governance, and better link the medium and long-term goals with the annual goals.

1.4.3 Regulating Local Debt Management

The former Budget Law of the People's Republic of China, passed in 1994, stipulated that "the budgets of local governments at all levels shall be formulated according to the principle of living within one's means, balancing revenue and expenditure, and excluding deficits". But in fact, local governments at all levels, in order to meet the needs of economic development, adopt various financing methods to obtain funds, and local government financing emerges in an endless stream, and these local debts are not included in the government budget, Debt risk should not be underestimated. In order to solve this problem, the Budget Law passed in 2014 adopted the reform measures of "opening the front door and blocking the back door". While allowing local borrowing, it explicitly stipulated the right of local borrowing: defining the main body and mode of borrowing, defining the use and scale of funds, defining the supervision mechanism and repayment funds. This reform not only adheres to the principle of strict control of local debt, but also meets the needs of economic and social development, laying a solid foundation for the establishment of an open and transparent budget system in China.

2. Conclusion

Over the past 70 years since the founding of the People's Republic of China, great changes have taken place in the budgetary management system of our country, which has undergone a transformation from the highly unified collection and control of expenditures in the planned economy period to the transparent and standardized budgetary system under the modern financial framework, with remarkable results. However, it can not be ignored that the current budget system in China still has shortcomings and shortcomings, and there is still a certain gap with the requirements of the modernization of national governance.

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