

# The Countermeasures for the Slowdown of China's Financial Revenue Growth

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**Abstract**—The era of the rapid financial revenue growth exceeding GDP growth in the past 20 years had come to an end. The financial revenue growth slowdown means not only the enlarging gap of the central government budget revenue and expenditure, but also the serious local financial difficulties. The slowdown is due to the impact of the transformation of the economic growth pattern and the driving force of economic growth, as well as the problems of the existing financial system. It is critical to optimize China's fiscal system reform. First, the government is supposed to reposition its role in the social economy and redefine the boundary between the government and the market. In different fields of resource allocation, the government needs to choose different roles to play, to advance or withdraw. Second, it is supposed to standardize the local revenue management while expanding the channels of financial revenue, deepening the reform of the provincial and sub-provincial financial system, so that local governments can have sustainable, stable and reliable sources of revenue, and cut down government administration cost.

**Keywords:** *local revenue, taxation system, resource distribution*

## I. INTRODUCTION

In January and February 2015, China financial revenue increased by 3.2%, compared with 11.1% in the same period last year, and more than a half of the provinces in China experienced financial incapacity. [1] It meant that the era of the rapid Financial Revenue growth exceeding GDP growth in the past 20 years had come to an end in early 2015 in China. The signal of this phenomenon was that the new fiscal revenue status was gradually formed under the new normal status of economy growth deceleration.

From the condition of the overall financial revenue and expenditure, accompanying the low growth rate of government revenue the financial expenditure rigidity became obvious, which make the unbalance of financial revenue and expenditure increasingly serious. Besides, the

situation of local finance was worse, and it was important to note that the heavy degrees of different local governments' finance woes were quite different, such as in Liaoning province, in the first quarter of 2015 the general public budget revenue fell 30.4% compared with that in the same period last year, and the general public budget expenditure fell 3.4%, the financial deficit was -8.28 billion Yuan. Comparatively, the general budget revenue in Sichuan province increased by 2.6% compared with the same period last year, and the general public budget expenditure increased by 9.8%, with a finance gap of -53.103 billion Yuan. Guangdong's budget revenue increased by 13.9% compared with the same period last year, and expenditure increased by 21.6%, with a financial surplus of 4.75 billion Yuan. [1]

Those financial performances of those provinces are in certain degree the reflection of China fiscal system under current economic conditions. It is critical to explore the sources of the change of the government revenue and expenditure and look into the way to adjust and optimize the China fiscal system to deal with the new economic status.

## II. AWARENESS OF THE SLOWDOWN OF CHINA'S FINANCIAL REVENUE GROWTH

The financial revenue growth slowing down means not only the enlarging gap of the government budget revenue and expenditure but also the serious local financial difficulties. The cause of the slowdown in the government revenue growth is the deceleration of the economic growth of our country, while the reason for the slowdown of the economic growth is the adjustment of the economy structure and the transformation of the economic growth scheme. In this macro-economic circumstances, the local government, under the current financial system framework, faced new challenges, including the adjustment of the local government revenue formation, the slowdown of the income growth, the adjustment of the financial expenditure structure, the

optimization of the expenditure pattern, the promotion of the support effectiveness, etc. In order to reverse that plight of the local finance, great attention should be put to the growth and development of the economy since the government finance involves many distribution links in the overall process of social production, thus it is primary to explore the status of the economy in China in order to realize the growth of the finance, rather than just focus on the administration of taxation in the financial field. Even if the second respects is also very impressive. Due to that, the reasons of the slowdown of revenue growth should be analyzed in multiple respects.

### III. CAUSES OF THE SLOWDOWN IN FINANCIAL REVENUE GROWTH

#### A. *Structural readjustment of economy*

Since the slowdown in economic growth is due to the adjustment of the economic structure and the transformation of the driving force of economic growth, this paper first analyzes the impact of the transformation of the economic growth pattern and the driving force of economic growth on the local financial revenue and expenditure.

First, the economic structure has transformed. From the change of industrial structure, it can be seen from the following figure that the proportion of the added value of the primary industry in the GDP has continued to decline since the economic reform and opening up in 1980s. In the past five years, the proportion of the added value of the secondary industry in GDP has been relatively stable. The proportion of the added value of the tertiary industry in GDP has increased steadily. The proportion of the secondary and tertiary industries in 2012 was 45% and 45.5% respectively. In 2013, the proportion of the tertiary industry exceeded that of the secondary industry for the first time, reaching 46.9%. And the proportion of the secondary industry fell by 43.7%. [1]The change of industrial structure shows that the economic structure dominated by secondary industry has transformed into that structure dominated by service industry. Otherwise, from the point of view of urban and rural disposable income, both the scales of disposable income in urban and rural areas shows a trend of accelerated growth, while the Engel coefficient of urban and rural households shows a downward trend, which indicates that the scale of disposable income of urban and rural residents has expanded and the structure of consumption has also changed. The last, seeing from the urbanization, the nominal urbanization ratio and urbanization rate of population in China show an accelerated trend.

Secondly, the change of economic growth force embodied by the change of industrial structure is mainly reflected in that the future economy will tend to be dominated by service industry. On one hand, it is to speed up the development of service industry; on the other hand, it is to promote the upgrading of production industry. As far as consumption is concerned, the proportion of food and clothing consumption reduced and the proportion of other consumption raise up, as the economy will need to meet the

needs of higher level and diversified consumption in the future. Seeing from the point of urbanization, the acceleration of urbanization will make urbanization a new driving force in the future economy, and as well the government should further promote the equalization of basic public services in urban and rural areas by adjusting the public resource allocation between urban and rural areas.

#### B. *Problems of the existing financial system*

Although the hierarchical taxation reform carried in 1994 has standardized the financial relationship between the central and local governments, it have not been established in our country that the complete tax distribution system have the correspondence between financial income and administrating matters, and the governments at all levels should have formed relatively independent budgets and sought their own balance. Superficially the governments at all levels should have formed the disguised form of their own income through tax division. The current taxation system is a transitional revenue-sharing model to a large extent, rather than the hierarchical financial system by focusing on the income end.

In the current taxation system, the local government has not obtained the financial right corresponding to the administrating matters. From the point of view of the revenue composition of the local government, the local tax is not the main source of local revenue in many areas, and the transfer payment income from the secondary financial resource distribution of central government has become one of the main sources of local revenue in those places. Nevertheless the land finance, the local government bonds, fees constitute important sources of local revenue, among which the income formed by means other than tax revenue and transfer payment income covers up the institutional defects that the tax distribution system has failed to provide adequate, stable and long-term financial security for governments at all levels, especially local governments, after filling the local financial needs.

In other words, the rapid development of China overall economy since the mid-1990s had provided space for local governments to obtain income through land finance, debt, fees and so on, and made the local government financial life "easy", with covering up the defects of the tax distribution system. Then the local financial predicament under the condition of the deceleration of economic growth exposed the hidden defects of China tax distribution system.

### IV. CONCLUSION AND SUGGESTIONS

The way to deal with the slowdown of fiscal revenue growth should be to increase income sources and cut down expenditure. Cutting expenditure is not referring to a comprehensive reduction in expenditure at the end of financial expenditure, but a focus on the need to reposition the government role in the socialist economy, as well as redefine the boundary between the government and the market. On that basis, the government employs its fiscal measures, get revenue for public goods provision and act an

appropriate part in source allocation. Increasing income sources is not referring to a direct use of financial tools to collect social wealth at the end of fiscal revenue, but innovative countermeasures with some emphasis aspects. It is supposed to focus on standardizing the overall revenue management of the government while expanding the channels of fiscal revenue, deepening the reform of the provincial and sub-provincial financial system, so that local governments can have sustainable, stable and reliable sources of revenue.

#### *A. Being advanced and withdrawn in different fields of resource allocation*

In different fields of resource allocation, the government needs to choose different roles to play, to be advanced or backward.

- in the fields of Commodity market

In the Commodity market fields, the Scheme of Price Equilibrium can play a full role to make resource allocated efficiently. Due to that, the market mechanism, as an invisible hand, is supposed to play a basic role in commodity markets and the government needs to be fully withdrawn from the area where the market can play a favorable role to distribute resource efficiently. This withdraw does not only help improve the resource allocation efficiency, but also on reduce the government's fiscal burden by cutting down government expenditure in commodity market areas.

- in the field of public goods provision

Public goods are considered to be provided by government because of market failure. In the field of public goods provision, the government can play three main roles: public goods producer, public goods provider and public goods arranger. The provision of public goods is different from the production of public goods. The government is not required to produce public goods itself. It can also act the part of arranger to locate the public goods producers for common people. In the past, the Chinese government mainly acted as the producer of public goods, that is, the government was not only the sponsor of public goods, but also the producer of public goods. This reduces the supply efficiency of public goods to a certain extent and increases the financial burden. At present, under the condition of the deceleration of the financial revenue growth, the government can improve the efficiency of resource allocation and reduce fiscal expenditure by acting only as a sponsor of public goods, while the production of public goods is handed over to private sectors for production. For example, the governments of developed countries, such as Britain and France, encourage private medical institutions to become main primary medical service suppliers, and make the private institutes compete for the primary medical service bids from governments, in order to ultimately reduce the cost of primary medical service supply and control the budget. Gu Xin pointed out that if the buyer and provider of medical services are not separated and the government also acts as the buyer and provider of medical services, "The public medical system is actually a huge hierarchical system, in

such a system, there is no transaction cost, but there are a lot of bureaucratic costs"[2]. Thus by introducing the private institutions and competition in public goods production the financial expenditure can be reduced to certain extent. No matter in developed or developing countries, the main direction of the reform is to introduce private medical institutions to provide medical services together with public medical bodies to form competition mechanism to reduce the cost of primary medical supply, the public goods areas, and cut down medical expenditure[3].

It is suggested that our government could make full use of the theory of network governance to save financial expenditure. First, the government only acts as a sponsor and public goods are produced by private bodies. According to the theory of network governance in public management, the government, including local governments, can actively introduce primary enterprises to produce public goods and provide public services so to improve production efficiency, and reduce the cost of providing public goods. Second, the government and non-governmental departments can jointly supply public goods by sharing the cost of public goods. For example, we can actively employ PPP mode (Public-Private Partnership), expand its application fields of PPP mode, and innovate the employing ways of PPP mode in different application fields of PPP mode, such as public facilities.

#### *B. Reduce of government administrative cost*

Although the proportion of the officers to all people in China calculated according to different measured calibers are slightly different, it is generally accepted that the scale of the government in our country is over-sized. The proportion in China in 1999 was 1:30, Indonesia was 1:98, Japan is 1:150, France was 1:164, and the United States was 1:187. [4]

From the above data, it is clear that the government scale in China is over scaled, the financial burden caused by the government administration is heavy, and the administrative cost is really worth paying attention. It is necessary to reduce the government administrative expenses. It is suggested that the government administration cost could be reduced in those three ways.

First, it is supposed to reduce the scale of the government. Reducing the size of the government does not mean the overall compression of the staff, but should start with the "structural redundancy" and "functional redundancy" departments in the public government, so as to optimize the government structure. To make full use of the limited role of the "visible hand, and adjust the existing scale of the government properly. The government may even need some expansion in some departments, such as the service-oriented department concerned with the service of people livelihood, and the department with professional requirements.

Second, the measures of the reduction of "three public expenses" should be carried out. Three public expenses, including the public spending on government cars, overseas trips and official receptions, is characterized by the use of public purposes, the assumption of public revenues, and the non-transparent use details. To reduce such expenses, first of

all, the specific expenditure standard of such expenditure should be defined so as to control the total amount of the financial expenditure. Secondly, the supervision mode of the expenditure has to be clearly defined; the mode of internal supervision of the government would be built at the same time. The utilization of the three-public funds can be linked with the assessment of the officials and the performance of local governments.

Third, the reform of the public institution should be continued. The state would scientifically distinguish the roles of the government and the market and advance the reform of the public institutions. China government should further explore the fields in which the market mechanism can play an efficient role rather than government. Otherwise, in public institutions engaged in public welfare services, the focus of the reform should be returned to how to better provide and produce public goods and public services, realizing the universal coverage and the equal access with lower financial cost.

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