

Research on the Development of the Size and Structure of Government Financial Outlay in China

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Abstract: As an important component of government allocation, fiscal outlay not only serves as the financial foundation for maintaining government functions but also provides a comprehensive overview of the scope and content of government activities in a market economy. This article analyzes the dimensions and structure of China's government fiscal outlay by reviewing existing literature and research data. It has been observed that the overall fiscal outlay by different tiers of government in China has witnessed a consistent rise over the years, with particular emphasis on the substantial fiscal deficit rates at the local level. This phenomenon has subsequently resulted in a persistent deterioration of the fiscal imbalance. There are also numerous problems in China's fiscal outlay structure, which lags behind developed countries and needs constant optimization. In response to these fiscal issues, this article proposes measures to alleviate fiscal outlay pressure, such as further increasing fiscal system reform, appropriately adjusting the tax system, strengthening supervision of fiscal outlay, and rationally optimizing fiscal outlay structure, taking into account China's actual situation.

Keywords: Size of fiscal outlay, Structure of fiscal outlay, Local Fiscal Imbalance

1. Introduction

Since the introduction of the reform and opening-up policy, the Chinese economy has undergone rapid development and has emerged as the world's second-largest economy. In 2014, China's economic progress entered a new phase, shifting from high-speed growth to medium-high-speed growth. However, due to the outbreak of the pandemic, the economy experienced a decline, leading to a negative growth rate of -3.9% in 2020, which is the first instance of negative growth since the commencement of statistics in 1978. Consequently, fiscal policy adjustment, as a comprehensive representation of the national economy, holds significant importance in the fiscal and tax system reform of the new era.

Presently, there are still significant contradictions in China's fiscal profit and outlay, challenging the adaptation of the structure of fiscal outlays, the activation of idle finances, and the acceleration of financial and taxation system reform. Hence, the objective of this scholarly article is to analyze in-depth the current situation and characteristics of fiscal outlay and growth at various levels of the Chinese government and to specifically explore the problems and influencing factors of government fiscal outlay. Through the study of these issues, better references and suggestions can be provided for government decision-making.

2. Theoretical basic

2.1. The Fiscal Interactions between the Central and Local Governments

The intergovernmental fiscal relationship is an important political and economic institutional arrangement in a country [1]. In general, the fiscal interactions between the central and local authorities include three aspects: firstly, profit allocation, which refers to how government earnings, and substantial levies, are arranged among the governments; secondly, the division of financial powers and outlay liabilities, which refers to which position of the government should be responsible for certain matters and which position of the government should bear the fiscal burden; thirdly, the transfer payment system, which addresses how to acclimate the financial imbalances between governments after clarifying both the matters and the finances and how to make up for the space in original earnings to meet the requirements of carrying out tasks through scientific and standardized transfer payments. Grounded on these, the establishment of a budget operation system clarifies the introductory rules of financial profit and outlay conditioning, ensures the functioning of finance, and promotes the division of labor, cooperation, orderly operation, and effective performance of governments in all situations [2]. In the process of the development of modern fiscal systems, the fiscal interactions between the central and local authorities are an extremely important aspect, characterized by strong temporal relevance.

2.2. Modern Fiscal System

The primary components of the contemporary fiscal system in China encompass two facets. Firstly, there is the tax system. The fiscal reform has resulted in the allocation of central and local fiscal revenues based on various tax categories. Nevertheless, the specific tax structure has consistently undergone adjustments and modifications. An illustrative example of this is the "business tax to value-added tax (VAT) reform," which serves to minimize redundant taxation. Moreover, direct taxes have experienced numerous changes, such as the introduction of a comprehensive and categorized collection model for the reform of personal income tax in 2018[2]. Secondly, there is the financial management system. The fiscal management system implements a framework in which provinces directly oversee counties, and counties directly manage townships, thus establishing standardized financial practices across townships.[3].

The establishment of the modern tax system, which is based on the fiscal decentralization system, has brought about a clearer understanding of the fiscal revenue scope for both the central and local governments. However, there has been a lack of clear definition regarding the relationship between fiscal power and functional power of these governments. As a result, local governments have been burdened with excessive financial outlay responsibilities, leading to decreased efficiency in financial outlay and hindering local economic development. In response to this issue, the country has initiated a new round of fiscal system reform to promote a balanced relationship between fiscal power and functional power of both central and local governments. Fiscal functional power refers to the tasks and responsibilities that the primary level of government should undertake in providing basic public services using fiscal funds. Outlay responsibility refers to the government's obligation and guarantees to fulfill its fiscal functional power. In simpler terms, it determines who should do what and who should bear the cost of doing it. The fiscal functional power of both the central and local governments can be categorized into three main aspects: the fiscal functional power fulfilled by the central government, the fiscal functional power fulfilled by local governments, and the fiscal functional power jointly fulfilled by both the central and local governments [4]. By clarifying these three aspects, the contradictions between the central and local governments in fiscal matters have been initially

identified, laying the groundwork for a more comprehensive division of fiscal functional power across various fields.

2.3. Relevant Theories

2.3.1. The Theory of Economic Development Stages

American economists Musgrave and Rostow employed List's proposition of profitable development stages to explain the reasons for the increase in public outlay. They proposed that the structure of financial outlay should be acclimated by the country's profitable development. They presented a three-stage proposition: 1) In the early stage of profitable development, the country's structure is lagging, and a profitable structure similar to transportation, communication, and water installations has significant external husbandry. The private sector is unintentionally invested, but adding structure outlay by the government not only brings better profitable benefits but also affects the productivity of private sector investment. thus, structure outlay accounts for a large proportion of the country's financial outlay structure. 2) In the middle stage of profitable development, the country's structure is principally completed, and the private sector is fleetly developing. The relative proportion of structure construction in government financial outlay gradationally decreases. 3) In the late stage of profitable development, the country's profitable structure becomes further perfect, and the people concentrate on perfecting their quality of life. To meet the people's pursuit of a better life, the country begins to increase structure construction outlay again. During this period, financial outlay will concentrate on adding social security and other livelihood-related outlays [3].

2.3.2. Public Choice Theory

Public Choice Theory is a theory that applies economic methods to study political mechanisms. It proposes the economic man hypothesis, which suggests that the fundamental reasons for government inefficiency and continuous expansion are the monopolistic characteristics of bureaucracy in the provision of public services. This means a lack of competition, lack of incentives and punishments, as well as a lack of oversight mechanisms. Therefore, the fundamental approach to eliminating government failure is to restore competition and introduce market competition mechanisms in the public sector. Additionally, it also presents the theory of special interest groups, which states that various interest groups exist in economic and political contexts, both large and small, and these groups can influence political decision-making [5].

3. The Chinese Government's Fiscal Outlay Size

3.1. Size of Fiscal Outlay at All Levels of Government

Ever since the initiation of reform and opening-up in 1978, the social development of China has been undergoing rapid transformations. These changes have had profound effects on both the economic landscape and the mechanisms governing fiscal matters. To assess the present state of fiscal outlay, this study has chosen to analyze the fundamental data on China's fiscal outlay over the past ten years, as illustrated in Table 1. Through the analysis of the data in the table, it can be seen that: Firstly, with the increase in fiscal revenue and gross domestic product (GDP), the size of fiscal outlay has also expanded continuously. The total fiscal outlay in 2022 was 26,055.12 billion yuan, an increase of nearly 203 times compared to 12.8179 billion yuan in 1979. Secondly, the increase in fiscal outlay far exceeds the growth rate of income, and the difference between the two has expanded from 1,100.246 billion yuan in 2013 to 5,690.283 billion yuan in 2022, an increase of 5 times. Thirdly, the proportion of fiscal outlay to GDP has been decreasing year by year in the past decade and has reached a stable

state. Fourthly, although the growth rate of fiscal outlay fluctuates, there is an apparent downward trend overall.

Table 1: China's Fiscal Revenue, Outlay, and Growth Rate.

Year	Fiscal outlay (RMB billion)	Fiscal Income	The difference between income and outlay	GDP	GDP growth rate (%)	Fiscal outlay ratio (%)	Growth rate of outlay (%)
2013	140212.10	129209.64	-11002.46	595244.40	10.16	23.56	11.3
2014	151785.56	140370.03	-11415.53	643974.00	8.19	23.57	8.3
2015	175877.77	152269.23	-23608.54	689052.10	7.00	25.52	13.2
2016	187755.21	159604.97	-28150.24	744127.20	7.99	25.23	6.3
2017	203085.49	172592.77	-30492.72	827121.70	11.15	24.55	7.6
2018	220906.07	183359.84	-37546.23	900309.50	8.85	24.54	8.7
2019	238858.37	190390.08	-48468.29	986515.20	6.1	24.21	8.1
2020	245679.03	182913.88	-62765.15	1013567.00	2.3	24.24	2.9
2021	245679.00	202554.64	-43124.36	1149237.00	8.1	21.38	0.0
2022	260552.12	203649.29	-56902.83	1210207.20	3.0	21.53	6.1

Source: Compiled from the China Statistical Yearbook (2013-2022).

The escalating development of the social economy has led to a mounting fiscal dispute between the central and local governments, particularly concerning the incongruity between income and outlay at the local level. As indicated in Table 2, the fiscal revenue and outlay of the central government remain favorable, with the pace of income growth surpassing that of outlay growth. However, the contradictions between financial revenue and outlay at the local level have become more pronounced, with outlay reaching 173.51% of revenue in 2013 and 206.86% of revenue in 2022, leading to a growing debt burden for local finances. Additionally, the central government's financial outlay has increased by 1.7 times from 2013 to 2022, while the overall financial outlay of local governments has increased by 1.8 times during the same period. These two sets of data reveal that the fiscal deficit ratio of local governments in our country is continuously rising, while the corresponding financial revenue is steadily declining, thereby increasing the financial pressure on local governments.

Table 2: Revenue and outlay of the central and overall local governments.

Year	Centre outlay (billion yuan)	Centre Income	Local outlay	Local Income	Centre Outlay as a percentage of income(%)	Local Outlay as a percentage of income(%)
2013	20471.76	60198.48	119740.34	69011.16	34.01	173.51
2014	22570.07	64493.45	129215.49	75876.58	35.00	170.30
2015	25542.15	69267.19	150335.62	83002.04	36.87	181.12
2016	27403.85	72365.62	160351.36	87239.35	37.86	183.80
2017	29857.15	81123.36	173228.34	91469.41	36.80	189.38
2018	32707.81	85456.46	188196.32	97903.38	38.27	192.22
2019	35115.15	89309.47	203743.22	101080.61	39.31	201.57
2020	35095.57	82770.72	210583.46	100143.16	42.40	210.28
2021	35049.96	91470.41	210623.04	111084.23	38.31	189.61
2022	35570.83	94887.14	224981.29	108762.15	37.48	206.86

Source: Compiled from the China Statistical Yearbook (2022).

When examining local governments, the financial outlay situation of various provinces in China reveals a lack of optimism. This can be observed in Table 3, where the fiscal outlay of Guangdong Province doubled between 2013 and 2022, the fiscal outlay of Jiangsu Province increased by 1.9 times during the same period, and the fiscal outlay of Zhejiang Province increased by 2.5 times. These figures surpass the growth rate of both the central government and local governments as a whole.

Table 3: Financial outlays of the central government, Guangdong Province, Jiangsu Province, and Zhejiang Province.

Year	Centre outlay (billion yuan)	Guangdong outlay	Jiangsu outlay	Zhejiang outlay
2013	20471.76	8411.00	7798.47	4730.47
2014	22570.07	9152.64	8472.45	5159.57
2015	25542.15	12827.80	9687.58	6645.98
2016	27403.85	13446.09	9981.96	6974.20
2017	29857.15	15037.48	10621.03	7530.32
2018	32707.81	15729.26	11657.35	8629.52
2019	35115.15	17297.85	12573.55	10053.03
2020	35095.57	17430.78	13681.55	10082.00
2021	35049.96	18247.00	14585.26	11014.59
2022	35570.83	18533.08	14903.20	12017.70

Source: The Ministry of Finance of the People's Republic of China.

In the context of contemporary economic development, it is widely acknowledged that local governments will experience a continuous increase in fiscal outlay to meet the demands of the modern economy. Nevertheless, in light of China's economic downturn, the implementation of tax reduction and fee reduction policies, as well as the persistent strengthening of livelihood outlay, the government's fiscal environment has significantly deteriorated, particularly in the face of the ongoing epidemic. This has led to a decline in government revenue coupled with an increase in spending, resulting in a complete imbalance between fiscal income and outlay. Consequently, local governments at all levels are now confronted with substantial fiscal pressure.

3.2. Structure of Fiscal Outlay

In recent times, there has been a persistent increase in the ratio of fiscal outlay to GDP. This has led to a gradual transformation in the structure of fiscal outlay, with a notable shift from economic construction towards the realm of social services. As shown in Table 4, China's overall fiscal outlay is mainly concentrated on education, social security, agriculture, public services, and urban-rural development. Among them, education outlay accounts for the largest proportion of total fiscal outlay at 15.25%, followed by social security at 13.75%, agriculture at 8.96%, public services at 8.09%, urban-rural communities at 7.92%, and health at 7.9%.

By analyzing the table below, it can be seen that China's current fiscal outlay mainly consists of outlay on people's livelihood, including general public service outlay, public safety outlay, the outlay on science, education, culture, and health, social security, and employment outlay, and housing security outlay. In addition, there are significant differences between central and local fiscal outlays in specific projects. Central finance spends more on education and public services, while local finance invests more in education, social security, and employment.

Table 4: Main items of central and local Fiscal outlay (2022).

Program	Outlay amount (billion yuan)	Outlay Share(%)	Centre	Local
Education outlay	39447.59	15.25	1524.26	37923.33
Social security and employment outlay	36609.15	13.75	833.21	35775.94
Outlay on health	22536.72	8.96	220.56	22316.16
Outlay on agriculture, forestry, and water	22499.76	8.09	249.55	22250.21
General public service outlays	20879.40	7.92	1578.53	19300.87

Source: Compiled from the China Statistical Yearbook (2022).

4. Problems and Causes Analysis of Fiscal Outlay

4.1. Main Problems and Causes Analysis in the Size of Fiscal Outlay in China

Following the fiscal reform of the tax-sharing system, there has been an increase in the central government's fiscal revenue, resulting in the concentration of fiscal power at the central level. However, the responsibility for fiscal outlays has largely remained at the local authority, creating a persistent disparity between fiscal power and outlay responsibility between the central and local levels. To tackle these issues, China initiated a reform in 2016 to allocate fiscal authority and outlay responsibilities between the central and local governments. This reform marked the initiation of a new phase in the country's fiscal system reform. It commenced with a focus on outlays and aimed to establish a public finance system, emphasizing the principle of aligning fiscal authority with outlay responsibilities. It provided clarity on the division of fiscal authority within the government and defined the corresponding outlay responsibilities for each level of government. This can further streamline the distribution of income between the central and local governments, ultimately achieving the desired reform outcomes.

Although the issues between the central and local authorities have been preliminarily resolved, financial problems among local governments still exist, especially at the grassroots level where the financial problems are more prominent. The financial difficulties at the local level are not only a contradiction between revenue and outlay but also a mismatch between fiscal capacity and fiscal responsibilities. Lower-level governments have undertaken many tasks assigned by higher-level governments. These tasks belong to the authority of higher-level governments, but the outlay responsibilities are borne by lower-level governments. In addition, the existence of numerous government departments, redundant personnel, and an incomplete system of transfer payments are also reasons for the financial difficulties at the local level. The COVID-19 pandemic, population aging, fluctuations in the real estate market, and the sluggish external economic environment have also to some extent increased local fiscal outlays.

4.2. Major Problems in the Structure of China's Fiscal Outlay

The primary problem is the low efficiency of public service outlay. Although China has a large population and administrative management outlay is necessary, improving the efficiency of administrative management outlay while meeting financial needs remains an urgent issue to be resolved. Secondly, there is a relative lack of outlay on social and educational costs. Despite increased investment in science and education in recent times, China's outlay on science and

education as a proportion of GDP is still far below that of Western developed countries, indicating a significant gap. Lastly, in terms of social security and employment outlay, the proportion of fiscal outlay allocated to social security and employment in China is currently around 13%, which is significantly lower than the 40-50% in Western developed countries, highlighting a considerable disparity.

The underlying reasons for these problems lie in the inadequate understanding of the essence of public finance [6]. On one hand, the contradictions within the market mechanism necessitate government intervention. However, excessive total fiscal outlay and an unreasonable internal structure have led to excessive government intervention in the micro market. On the other hand, the level of economic development and changes in industrial structure require a transformation of government functions. However, the direction of government fiscal outlay and investment lacks timely adjustments.

5. Conclusion and Recommendations

5.1. Continue intensifying fiscal system reform and further delineating fiscal powers and outlay responsibilities

To further advance the reform of the fiscal system, it is crucial to continue dividing fiscal powers and outlay responsibilities. The issue of imbalanced fiscal powers and responsibilities among local governments necessitates a deeper reform of the fiscal system below the provincial level. This can be accomplished by using the reform of the division of fiscal powers and outlay responsibilities between the central and local governments as a model. Additionally, it is important to streamline intergovernmental fiscal relations below the provincial level, reinforce the powers and outlay responsibilities of the province concerning the city and county, and grant the province the authority to coordinate local affairs. Furthermore, it is essential to enhance the stability of macro taxation and consistently regulate transfer payments, particularly joint transfer payments for shared responsibilities.

5.2. Strengthening the management and supervision of fiscal outlays to ensure the effectiveness of fiscal outlays

To ensure the rationality and effectiveness of fiscal outlay, two aspects can be considered. On the one hand, the introduction of a market competition mechanism is necessary. Currently, there are numerous public sector institutions and redundant personnel in our country, which has increased the operating costs of the government, led to a severe mismatch of government functions, reduced the efficiency of government activities, and increased the financial burden on the country. To improve efficiency, it is necessary to streamline public sector institutions and personnel and establish corresponding incentive and constraint mechanisms to improve work efficiency. On the other hand, it is important to establish a reasonable reward and punishment mechanism, which is a key method to strengthen fiscal management and supervision. By conducting professional assessments and evaluations of various fiscal outlays, publicly disclosing the results, and implementing rewards and punishments, the interests of projects can be aligned with individual interests [3].

5.3. Positive efforts are being made to carry out institutional reforms and promote economic development, aiming to enhance the economic efficiency and fiscal revenue of the localities

The financial pressure on local governments comes not only from the indistinct demarcation of powers and obligations with the higher-level government but also from many internal institutional

issues. Therefore, local governments need to actively reform, streamline personnel and institutions, reduce complex procedures, establish a service-oriented mindset, and build a service-oriented government. At the same time, they need to adjust economic policies and industrial structure according to local conditions and vigorously develop inclusive finance, which not only significantly increases local tax revenue, but also optimizes financing channels for small and micro enterprises, and promotes mass innovation and entrepreneurship [7]. By stabilizing people's lives and employment while improving the situation of local economic development, the sustainability of the local economy and the stability of fiscal revenue can be ensured.

5.4. Optimize the structure of fiscal outlays to maximize the efficiency of fund utilization

To optimize the structure of fiscal outlay, the most important thing is to reasonably grasp the priority order of fiscal outlay, adjust and allocate the structure of government outlay, and effectively seek to maximize the efficiency of fiscal outlay [6]. Governments at all levels should have a comprehensive understanding of the market economy structure and social development situation, and make appropriate adjustments and allocations to the fiscal budget and financial resources according to the specific circumstances, to achieve a balance between outlay and income, demand and input. The optimization of the structure of fiscal outlay means making a reasonable layout of fiscal outlay in areas such as social security and employment, public services, infrastructure, health, and education, and accurately allocating the outlay share in the fiscal field, to maximize the efficiency of fiscal outlay.

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