

Local Fiscal Autonomy in China:

Historical Evolution and Hierarchical Differences, 1990–2014

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中国地方政府的财政自给能力：历史演变与层级差异（1990-2014）

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Abstract

Local fiscal autonomy has a great influence on government behavior. However, there are substantial regional gaps and hierarchical differences in local fiscal autonomy in China. On the

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whole, although for many years most of China's counties have enjoyed little fiscal autonomy, counties in the east have gradually won increased autonomy. Counties in the central and western regions, however, have continued to lose fiscal autonomy. Some have even lost the most basic level and now rely on transfer payments from higher-level governments for most of their local public expenditures. County expenditures make up the majority of national expenditures. Therefore, a low level of county fiscal autonomy impedes China's county-based fiscal system reform and has a marked impact on government behavior and local governance.

Keywords

local fiscal autonomy, county-based fiscal system, historical evolution, regional differences

摘要

地方各级政府的财政自给能力是影响政府行为机制的关键因素之一。分税制后，中国地方各级地方政府财政自给能力都明显下降，同时还存在巨大的层级差异和区域差异。全国县级政府财政自给能力总体长期在低位徘徊，但东部地区县级政府的财政自给能力逐渐上升，中西部地区则持续下降，财政自给能力最为薄弱，一些县已失去了最基本的财政自主性。县级政府是中国财政支出的绝对主体，过低的财政自给能力妨碍了真正“以县为主”的治理实践，对政府运行和地方治理也会产生深远影响。

关键词

财政自给能力、“以县为主”、历史演变、区域差异

To date, there have been several political and economic studies of the central-local relationship in China. These studies, including sociological studies of the project system 项目制, have not only helped us better understand the transition of China's economy but have also inspired the exploration of the behavior of the Chinese government in other fields. However, research on intergovernmental fiscal relationships has failed to lay a firm foundation for further research on the project system. This is evident, for instance, in a lack understanding of subprovincial fiscal relationships. To address this lacuna, this article explores local fiscal autonomy, especially county fiscal autonomy, historically and systematically.

Issues and Review of the Literature

The rapid development of China's economy since the 1980s has famously been called "the Chinese miracle" (Lin et al., 1999). Some scholars believe that the adjustment of central-local relationships has led to so-called regionally decentralized authoritarianism (RDA), which combines political centralization with economic decentralization, thus giving local governments a very significant role in China's economic development (Qian and Weingast, 1996, 1997; Jin, Qian, and Weingast, 2005; Blanchard and Shleifer, 2000; Zhang Xiaobo, 2006; Lin, 2014; Xu, 2008; Xu, 2011; Zhou Xueguang, 2017). In particular, fiscal decentralization has been regarded as key to this process. There has been much research on the relationship between fiscal decentralization and phenomena such as economic growth, competition among local governments, provision of public goods, and so on (Davoodi and Zou, 1996; Zhang and Zou, 1998; Jin and Zou, 2005; Treisman, 2002; Zhang and Gong, 2005; Lin and Liu, 2000; Wang,

1997).

All these studies have helped clarify China's route to economic development and the behavior of the Chinese government. Some sociologists have gone further and provided innovative interpretations of governmental behavior (Qu, Zhou, and Ying, 2009; Zhe, 2014; Zhou Feizhou, 2006a, 2006b; Zhou Xueguang, 2017). For example, studies of "local state corporatism" have discussed the economic behavior of local governments under the fiscal contract regime (Oi, 1992, 1999),¹ and a number of studies of the project system have analyzed the intergovernmental fiscal transfer payment system after the tax sharing reform launched in

¹ The fiscal contract system 财政包干制/财政承包制, also dubbed "eating from separate kitchens" 分灶吃饭, was implemented in China from 1980 to 1993. Under this system, provincial governments entered into fiscal contracts with the central government. The contracts stipulated that "central fixed revenue" would consist of direct tax revenue or profits from state-owned enterprises and some other taxes, with the rest earmarked as "local revenue." Central fixed revenue was remitted to the central government, while local revenue was divided between the central government and provincial governments. The situation is actually more complicated than this because the contractual arrangements varied across provinces. Overall, under the fiscal contract system, provincial governments enjoyed a high degree of both autonomy in managing local revenue and decision-making power. Provinces reaped about 60 percent of the total revenues.

1994 (Qu, 2012; Zhe and Chen, 2011; Zhou Feizhou, 2012; Huang, Gong, and Gao, 2014).²

However, there remain two critical shortcomings in the research on the politics and economics of reforming the behavior of local governments. The first lies in the *measurement of central-local fiscal relationships*. Political and economic studies have tended to focus on the allocation of fiscal revenue (expenditures) in governments at different levels, or “fiscal decentralization” (Tiebout, 1956; Oates, 1972). The degree of fiscal decentralization is often defined in international studies as the ratio of local fiscal revenue (expenditures) to national fiscal revenue (expenditures) (Oates, 1985). To perform a cross-country comparison, most studies of China have also used the same index: the first was by Zhang and Zou (1998), which was followed by subsequent researchers using the same index or only slightly adjusted indexes. However, there are two fundamental drawbacks to this measuring method.

First, the index cannot effectively estimate the disparity in fiscal decentralization across provinces. Nonetheless, many studies have tried to explain disparities in economic growth and

² The tax sharing reform 分税制改革 was implemented in 1994. First, the division of the budgetary revenues was made relatively fixed. Revenues were divided into three kinds: central revenues 中央税, local revenues 地方税, and shared taxes 共享税. Second, two taxation institutions were set up: one to collect central revenues and the other to collect local revenues. Third, the transfer payment system from the center to the localities was further normalized. Overall, about 60 percent of total revenues are remitted to the central government, greatly enhancing centralization. See Zhou Feizhou, 2006a.

public service provision across provinces based on this index. In contrast, although the difference in the proportion of provincial fiscal revenues (expenditures) out of national fiscal revenues and (expenditures) (including per capita indicators) can be a basis for estimating the discrepancy in fiscal decentralization across countries, it cannot explain the discrepancy across China's provinces. The underlying reason is that the proportion of provincial fiscal revenues (expenditures) reflects the share of provincial fiscal resources out of total national fiscal revenues (expenditures), while the proportion of per capita revenue (expenditures) reflects the relative fiscal capacity and economic level across provinces. The two proportions are primarily influenced by the economic scale and developmental level of individual provinces. Therefore, while the index can make possible rough estimates of the degree of fiscal decentralization between the central and provincial governments as a whole, it cannot account for differences in the level of fiscal decentralization across provinces.

Second, the index does not fully consider the important role of intergovernmental fiscal transfer payments in local expenditures after the tax sharing reform. The fiscal contract system enhanced local fiscal autonomy by reducing intergovernmental transfer payments from upper-tier governments. Thus, it was reasonable to measure the degree of fiscal decentralization using the aforementioned measurement. However, China has experienced increasing revenue centralization combined with a high level of expenditure decentralization since the tax sharing reform, with fiscal transfer payments becoming increasingly important, especially in the central and western

regions.³ In addition, various types of intergovernmental fiscal transfer payments differ in terms of their features and functions and thus they need to be analyzed separately. Therefore, it is pointless to use the index to measure fiscal decentralization without considering the large intergovernmental fiscal transfer payments. However, most research has offered the same explanation for the critical effect of fiscal (economic) decentralization on China's transition both before and after the tax sharing reform, thus overlooking the recentralization of fiscal revenues after 1994.⁴

In response to these drawbacks, some new measuring indices have been developed. Hehui Jin and colleagues measured the degree of fiscal decentralization by the ratio of local

³ The eastern region consists of nine provinces or provincial-level municipalities, including the three municipalities of Beijing, Tianjin, and Shanghai, and six provinces: Liaoning, Shandong, Jiangsu, Zhejiang, Guangdong, and Fujian. The central region consists of ten provinces: Heilongjiang, Jilin, Shanxi, Hebei, Henan, Anhui, Hubei, Hunan, Jiangxi, and Hainan. The western region consists of twelve provinces or provincial-level administrative units, including the six provinces of Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, and Qinghai, the municipality of Chongqing, and the five autonomous regions of Tibet, Xinjiang, Ningxia, Inner Mongolia, and Guangxi.

⁴ The sweeping changes introduced by the tax sharing reform have been recognized and analyzed by only a few studies. See Zhang and Gong, 2005; Chen, Hillman, and Gu, 2002; Zhou Feizhou, 2006a.

expenditures to central expenditures in a province (Jin, Qian, and Weingast, 2005). Chen Shuo and colleagues directly measured the degree of fiscal decentralization by local fiscal autonomy, that is, the proportion of net local fiscal revenues out of total fiscal revenues in provincial governments (Wang and Chen, 2017; Chen, 2010; Chen and Gao, 2012; Gao, 2012). Despite a slight difference in the definition of local fiscal revenues/expenditures, the two approaches share a common logic, which is to measure fiscal decentralization using the proportion of local governments' own revenue/expenditures out of their total revenue/expenditures. This reveals the distinction between net local revenues and intergovernmental fiscal transfer payments from upper-tier governments, with a focus on the former, which is substantially different from the index proposed by Zhang and Zou (1998).

The index Jin and Chen used is typically called "local fiscal autonomy." It is an alternative index to estimate intergovernmental fiscal relationships that takes into consideration the drawbacks of the present indices and the importance of intergovernmental grants (Uchimura and Jütting, 2009; Ebel and Yilmaz, 2002; Meloche, Vaillancourt, and Yilmaz, 2004). Generally, in a multitier government, total local fiscal expenditures consist of two components: net local fiscal revenues and intergovernmental fiscal transfer payments from upper-tier governments.

Furthermore, the share of a local government's own fiscal revenue out of its total revenue (expenditures) is usually used to measure local fiscal autonomy. This index reflects not only the intergovernmental fiscal relationships based on intergovernmental fiscal transfer payments, but also the relative importance of a local government's own fiscal revenue as part of its total revenue (expenditures). Hence, this index should be especially accurate at estimating

intergovernmental fiscal relationships in China. Therefore, this article explores intergovernmental fiscal relationships by measuring local fiscal autonomy, taking into consideration the importance and complications of intergovernmental fiscal transfer payments.

The second shortcoming is that *most studies have focused on central-local fiscal relationships and have considered all tiers of subprovincial governments as a whole without considering the complicated fiscal relationships among the different tiers*. Some scholars believe that the proportion of provincial fiscal revenue (expenditures) out of national fiscal revenue (expenditures) is a misuse of the approach that measures the degree of fiscal decentralization as a share of subnational government revenue (Zhang Guang, 2011). According to the notion of fiscal federalism, local governments are better informed of diverse local conditions and public preferences than the national government due to their proximity to residents. Local governments can therefore offer better provision of public goods, and people can in turn provide guidance and give feedback to local governments by voting with their feet (Tiebout, 1956; Oates, 1972). Fiscal federalism is thus concerned with the fiscal relationship of local governments directly in charge of public goods provision with the central government (federal government) or subnational governments (state governments). Therefore, most studies of fiscal decentralization in the United States have examined state-local fiscal relationships instead of the fiscal relationships between the federal government and state governments (Oates, 1985; Akai and Sakata, 2002; Dincer, Ellis, and Waddell, 2010).

A few studies have explored subprovincial fiscal relationships in China (Uchimura and Jütting, 2009; Xiaobo Zhang, 2006; Budget Department, 2007; Liu, 2008; Zhang Guang, 2009;

Wu and Wang, 2011; Zhang Qi et al., 2014; Yang, 2015; Zhou and Wu, 2015; Mao, Lü, and Chen, 2018). For example, Zhang Yanlong (2006) discussed the negotiations around several reforms of the fiscal system among different tiers of subprovincial governments in the case of B Prefecture in A Province in the 1980s. However, his case study does not present an overall picture of subprovincial intergovernmental fiscal relationships, and it also cannot explain subprovincial intergovernmental fiscal relationships after the tax sharing reform.

Zhang Guang (2009) and Wu Mulian and Wang Wen (2011) analyzed fiscal decentralization in subprovincial governments across China's provinces. Zhang proposed an index based on the proportion of local own expenditures out of total expenditures of local governments at all tiers. He measured the degree of fiscal decentralization in twenty-five provinces (excluding the three municipalities of Beijing, Tianjin, and Shanghai) based on 2005 statistics and classified them into four categories. He found that county expenditures constituted 48 percent of subprovincial governmental expenditure in total. Although Zhang's study contributed to the research on subprovincial fiscal decentralization, it nonetheless suffered from two obvious weaknesses. First, it used the ratio of local own expenditures without considering intergovernmental fiscal transfer payments. Second, it only conducted a cross-section analysis using data from 2005 and ignored the historical evolution of subprovincial fiscal decentralization.

Yang Liangsong (2015) further developed the measurement of subprovincial fiscal decentralization. He was the first to measure the fiscal autonomy of prefectural and county governments, as well as their historical evolution, and used an index to present subprovincial fiscal decentralization—this was of groundbreaking significance. However, in measuring the

local autonomy of prefectural and county governments, Yang considered only tax rebates and neglected the influence of general purpose transfers on local fiscal autonomy. Aside from local own fiscal revenue, tax returns and general purpose transfers from upper-tier governments also have a great impact on prefectural and county fiscal autonomy. Tax rebates formed the main part of subsidies from upper-tier governments in the late 1990s. However, the impact of tax rebates diminished, while the effect of general purpose transfers grew, after the income tax sharing reform 所得税分享改革 in 2002, especially in the central and western regions.⁵ Therefore, the differences in diverse types of intergovernmental transfer payments need to be considered in order to arrive at a comparatively accurate overall picture of local fiscal autonomy (Uchimura and Jütting, 2009).

In addition, some studies have discussed subprovincial intergovernmental fiscal relationships from the perspective of the actual division of local fiscal revenue (Budget Department, 2007; Zhou and Wu, 2015; Mao, Lü, and Chen, 2018). They have analyzed the division of local fiscal revenue in subprovincial governments and addressed the differences in subprovincial fiscal systems across provinces. However, they have underestimated the importance of the relationship of local revenues and local expenditures, especially the role of intergovernmental fiscal transfer payments.

Overall, although research in politics and economics so far is sufficient for studying the central-provincial fiscal relationship from a macroscopic perspective, more research on

⁵ Income tax includes corporate income tax and individual income tax.

subprovincial intergovernmental fiscal relationships is needed for a deeper understanding of the features and mechanisms of local governmental behavior. Here, sociological research on local governmental behavior—based on insights into subprovincial governmental fiscal relationships, such as the earlier research on local state corporatism and the recent study of local governments, especially the systematic discussion of the project system—is of particular value.

Unfamiliarity with subprovincial governmental fiscal relationships has been a stumbling block for further research. For example, research on local state corporatism has mainly discussed the economic behavior of local and grassroots governments, but most research has actually discussed central-provincial fiscal relationships instead of the fiscal relationship between the government at the corresponding level and its immediate upper level, which is always mentioned in theory. As Yang and Nie (2008: 104) pointed out, “There is a huge gap between empirical research and theoretical analysis in most studies,” with county or township governmental behavior used for the former and provincial statistics for the latter.

This problem has been more significant in the study of the project system. For example, we lack comprehensive knowledge about the origin, structure, types, and regional differences involved in the project system, all of which are determined by fiscal relationships in subprovincial governments. As a result, studies of the project system have tended to be speculative and deductive, leading to misunderstanding (Jiao and Jiao, 2018; Jiao, 2019).

This article explores the historical evolution of fiscal autonomy at different tiers of local governments, with a focus on hierarchical and regional differences, especially in county government. It probes into subprovincial governmental fiscal relationships, especially the fiscal

system of county governments, and paves the way for further study of the project system.

A County-Based Fiscal System: Fiscal Relationships among Local Governments after the Tax Sharing Reform

The lack of deep research on fiscal relationships among subprovincial governments has in part been due to the complicated nature of the local fiscal system. The fiscal system of subprovincial governments is much more complicated than those of the central and provincial governments.

The main reason is that only the central-provincial fiscal relationship is clearly defined by the tax sharing system, while the fiscal relationships among subprovincial governments have not been formalized. All of the provinces instantly adjusted their subprovincial fiscal relationships to cope with the upward centralization of fiscal revenue. However, the subprovincial fiscal systems have varied across provinces and have changed from time to time in response to changes in both the tax sharing system and the fiscal contract system (World Bank, 2002; Jia, 2007). Some scholars have maintained that the difference in subprovincial fiscal decentralization across provinces is even greater than that across many OECD countries (Dollar and Holman, 2008).

For example, the division of the value-added tax, business tax, corporate income tax, and individual income tax in provincial, prefectural, and county governments greatly differs across the country (Budget Department, 2007; Zhang Guang, 2011; Zhou and Wu, 2015; Mao, Lü, and Chen, 2018). For another example, there is also an enormous difference in the degree of subprovincial fiscal decentralization across provinces (Zhang Guang, 2009; Wu and Wang, 2011). In addition, the intergovernmental fiscal transfer payment systems are more complex in

subprovincial governments. For instance, provincial governments only receive intergovernmental transfer payments from the central government, while prefectural and county governments have received payments from various upper tiers of governments. Various types of intergovernmental transfer payments intersect with each other and are difficult to distinguish.

Overall, the subprovincial fiscal system has become more coherent after the tax sharing reform, leading to a county-based fiscal system.

A Top-Down Path: From a Prefecture-Managing-County System to a Province-Managing-County System

Based on the constitution of the People's Republic of China, there are three levels of local governments in China: provinces, counties, and townships, excluding prefectures 地级.⁶

However, the prefecture-managing-county system was introduced in China after 1949 and was widely implemented across the nation after 1980. Until the end of 2003, eighteen provinces implemented the prefecture-managing-county system, and 80.4 percent of the counties were governed by prefectural governments (Wu and Chen, 2008; Sun and Wu, 2004). As a result, the prefecture was in substance a complete tier of government with a comprehensive fiscal system.

After the tax sharing reform, local fiscal autonomy at different levels declined sharply due to

⁶ The cities mentioned in the PRC constitution are of the county-level 县级市; the constitution makes no mention of prefectural-level administrative units 地级行政单位.

the centralization of fiscal revenue in the hands of the central government. In particular, in county and township governments the gap between revenue and expenditures expanded, resulting in a serious fiscal crisis. The expenditure gap was soon shifted to rural residents in the central and western regions, resulting in a rural crisis in the mid- and late 1990s (i.e., the so-called three rural crises 三农危机). With the abolition of rural taxes announced in 2005 and implemented in 2006, local governments had to rely on fiscal transfer payments. Such payments, however, were not sufficient to bridge the gap between revenue and expenditures. In response to the crisis, the central government increased fiscal transfer payments to county and township governments and attempted to reform local fiscal and administrative systems by enhancing county governance and implementing a county-based fiscal system reform.

After the tax sharing reform, the degree of fiscal autonomy was the highest in prefectural governments (more than 70 percent) and the lowest in county governments (between 40 and 50 percent) among the three tiers of governments (province, prefecture, and county). To some degree, prefectural fiscal autonomy was based on sacrificing county fiscal autonomy. Thus, the first step of county-based reform was to enhance county governments from top to bottom by moving fiscal revenue and administrative power from prefectural governments to county governments—the province-managing-county fiscal reform—accompanied by an enhancement of county governments' administrative authority.

The province-managing-county fiscal reform has replaced the previous prefecture-county fiscal relationship with a direct fiscal relationship between provincial and county governments. Provincial governments directly manage all fiscal business between provinces and counties,

including the division of intergovernmental revenue assignments and expenditure responsibilities, intergovernmental fiscal transfers, fiscal fund transactions, annual budgets and final financial reports, and so on (Ministry of Finance, 2009). For example, intergovernmental transfer payments, tax rebates, and other subsidies must be evaluated and allocated separately and directly to county governments by provincial governments. Any application of fiscal funds from prefectures and counties must go through the provincial governments' budget accounts. The province-managing-county fiscal reform aims to promote county fiscal autonomy and lead to an equal prefectural-county fiscal relationship to eliminate the centralization of fiscal revenue from county to prefecture. It could also simplify fiscal hierarchies and promote the operational efficiency of intergovernmental fiscal transfers (Liu, Qiao, and Zhou, 2014).

Two patterns of province-managing-county reform have been used to enhance the county government's power. The first pattern has been described as "entirely administered by provinces" 全面直管, which has been implemented in counties with a highly developed economy. Here the county government is endowed with as much administrative authority as the prefectural government. The second is called "specifically designated in the provincial plan" 省内单列, which grants the county government part of the prefectural government's administrative authority. Both reforms are meant to diminish prefectural governments' power and enhance that of county governments. In practice, the majority of provinces have implemented the directly-under-the-province pattern (Gong and Yao, 2015; Zhang Zhanbin, 2013; Yuan and Jin, 2010).

By the end of 2015, all of the provinces, except for Xinjiang, Inner Mongolia, and Tibet, had launched the province-managing-county reform in both their fiscal and administrative systems,

which substantially enhanced the fiscal and administrative authority of county governments. In addition, the central government also implemented a reform of the cadre management system in county government. In May 2009, the General Office of the Central Committee of the Communist Party of China (CCCPC) issued “Several Provisions on Strengthening the Construction of the Party Secretary Team of the County Party Committee,” which specified that “the selection and appointment of the party secretary of the county party committee shall be reported to the standing committee meeting of the provincial party committee for its consideration according to the procedures.” The reform of personnel management has promoted the political status of the leading cadres of county governments and provided political support for the province-managing-county reform of finance and administration (Zhang Zhanbin, 2013). As a result, the county-based reform of the finance, administration, and personnel system has enhanced county governments’ authority and autonomy from top to bottom.

A Bottom-Up Path: The CMT Fiscal Reform and the Township Administrative System Reform

Apart from the top-down reform discussed above, county government has also been enhanced by a bottom-up reform, which consists of the county-managing-township (CMT) fiscal reform, introduced first in Anhui in 2003 and then extended nationwide in 2006, and the township administrative system reform, launched after the rural tax-for-fee reform of 2002.

At the beginning, the CMT fiscal reform only sought to strengthen county fiscal agencies’ supervision of township fiscal revenues and expenditures through the unified management of

fiscal budgeting and final accounts (Ministry of Finance, 2006). However, in practice, the CMT fiscal reform goes beyond management and supervision and has led to an overall reform of the county-township fiscal relationship (Fu, Cheng, and Zheng, 2008). By the end of 2011, 86.1 percent of the townships in China had adopted the CMT fiscal system (Wang, Xu, and Zhou, 2019).

First, the CMT fiscal reform redistributed fiscal revenue between the county and township. Most fiscal revenue was directly transferred to the county government in many townships. For example, in Enshi county, Hubei, all of the fiscal revenue in townships, except for taxes on tobacco production, was centralized upward and was managed by county agencies. Similar reforms were implemented in most township governments.

Second, the CMT fiscal reform resulted in the centralization of fiscal expenditures. As a result, most fiscal expenditure items are directly managed by the county government, instead of the township government (Zhou Feizhou, 2012). The CMT fiscal reform originally aimed to formalize and supervise the fiscal behavior of township governments, especially to prevent them from misappropriating the salaries of teachers and civil servants. Thus, county governments took on the duty of paying teachers' salaries. Subsequently, various types of earmarked funds were allocated directly by county governments, and only some small expenditure items are managed by township governments.

Finally, township governments lost independent fiscal agencies after the CMT fiscal reform. The township finance bureau became a secondary agency and a subdivision of the county finance bureau, and all of the personnel and administrative authority of the township finance office were

managed by the county government. Although township governments also implemented the township-managing-village fiscal reform, transfer payments from upper tiers of governments down to villages were so limited (mainly the salaries for village committee personnel) that the township's fiscal capacity remained weak.

After the rural tax-for-fee reform of 2002, the township administrative system was also reformed. The objective was to trim and simplify township governments and make them more efficient. In Hubei, for example, the reform mainly encompassed three aspects. First, the number of administrative divisions and tiers was greatly decreased. Smaller villages and townships were combined into fewer administrative divisions, while an informal administrative tier, the so-called administrative district, which was a complete and large-scale administrative unit between towns and villages, was abolished. Second, the administrative departments of townships and villages were simplified. Here the key step was formalizing township institutions and reducing the number of leading cadres and other personnel as well as internal organizations. This reform in fact greatly decreased the number of the township and village personnel. Last, a reform of township public service units 事业单位 was also carried out. These institutions are subordinate organs of county government bureaus (Tan, 2006). After the abolishment of agricultural taxes, five county bureaus—courts, public security, justice, industry and commerce, and revenue—established centralized subordinate agencies in the township, while schools and hospitals were directly managed by the county. Other institutions became non-enterprise private organizations, providing some public services to rural areas paid for by the government.

In Hubei, the township administrative system reform was launched in 2003 and had a

significant impact. In 2005, the total number of township cadres had decreased by 40 percent, from 91,404 to 54,836. Specifically, officials in administrative departments decreased by 37.7 percent, from 54,567 to 33,977. After the financial office 财政所 was combined with the economic management station 经管站/农村经济经营管理站, the number of personnel fell by 45 percent, from 19,934 to 10,959. The number of the personnel in extensive and expansive organizations and institutions 延伸、派出机构—subordinated agencies of the county government in townships—decreased by 41.4 percent, from 16,903 to 9,900 (Deng and Liu, 2006: 218).

Overall, the two reforms weakened the fiscal and administrative power of township government. With the loss of basic autonomy, township government was turned into an assistant serving the county government (Fu and Jiao, 2015). As a result, county government was financially and administratively boosted, and a county-based fiscal and administrative system came into being.

Fiscal Autonomy of Local Governments

Local fiscal autonomy can be measured by the ratio of local governments' own revenue to their total revenue (expenditures), where the ratio is defined as an index of fiscal autonomy.

Obviously, the index is greater than zero. The benchmark ratio is “1,” which means that local government depends on its own revenue for all local expenditures, with no transfers from or to other tiers of governments. The index is greater than “1” when local government transfers a proportion of its revenues to other tiers of governments. The index is less than “1” when local

government relies on intergovernmental subsidies (Wang and Chen, 2017: 153; Meloche, Vaillancourt, and Yilmaz, 2004). Since local governments are not permitted to run a deficit,⁷ total local fiscal expenditures consist of two components: local governments' own revenue and intergovernmental fiscal transfers from upper-level governments. Therefore, local fiscal autonomy can also be measured by the proportion of fiscal transfers from superordinate government out of total local fiscal revenues (expenditures).

The tax sharing reform has been key to the evolution of local fiscal autonomy. It changed only the division of public revenue between central and provincial governments, while the distribution of public expenditure assignments basically remained the same. The ratio of central revenue to net local revenue moved from 3:7 before the reform to 5:5 after the reform, while the proportion of central public expenditures out of total local public expenditures changed from 30 percent (from 1994 to 2000) to about 15 percent after 2000 (see Figure 1). Approximately 30 percent of national fiscal revenue was transferred from the central government to local governments. In 1994, transfer payments from the central government constituted 56 percent of total local expenditures, but the proportion decreased rapidly from 1994 to 1997. After 1998, the proportion, despite some fluctuations, remained at a level above 40 percent, and in most years exceeded 45 percent. Overall, local fiscal autonomy has been relatively low (see Figure 2).

⁷ Under the current fiscal system, local governments do not possess the power to engage in deficit financing. Therefore, the total fiscal revenues of local governments should be equal to their total fiscal expenditures.

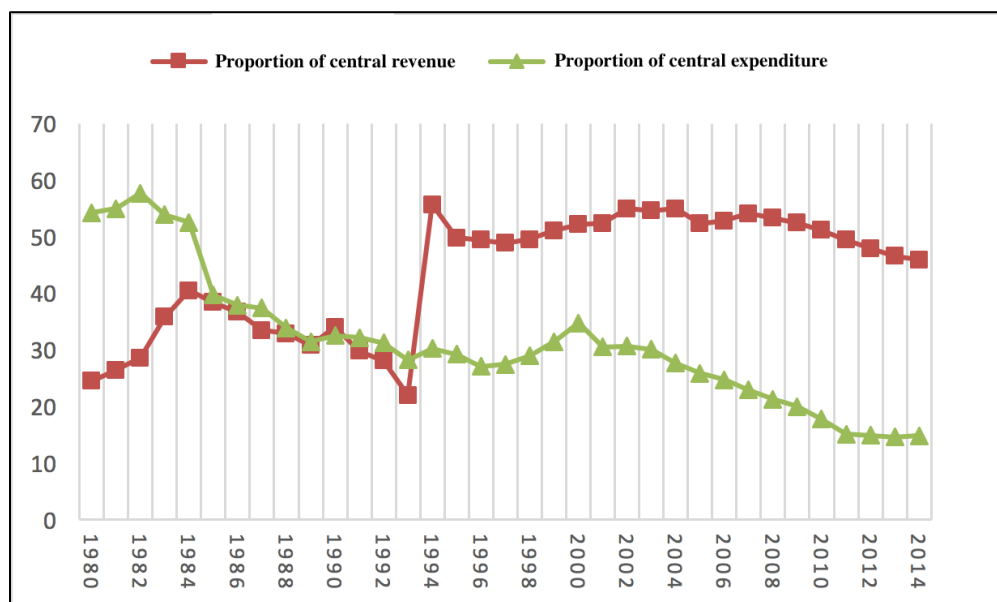


Figure 1. Proportion of central revenues/expenditures out of national revenues/expenditures (%), 1980–2014.

Data source: Ministry of Finance, 2015.

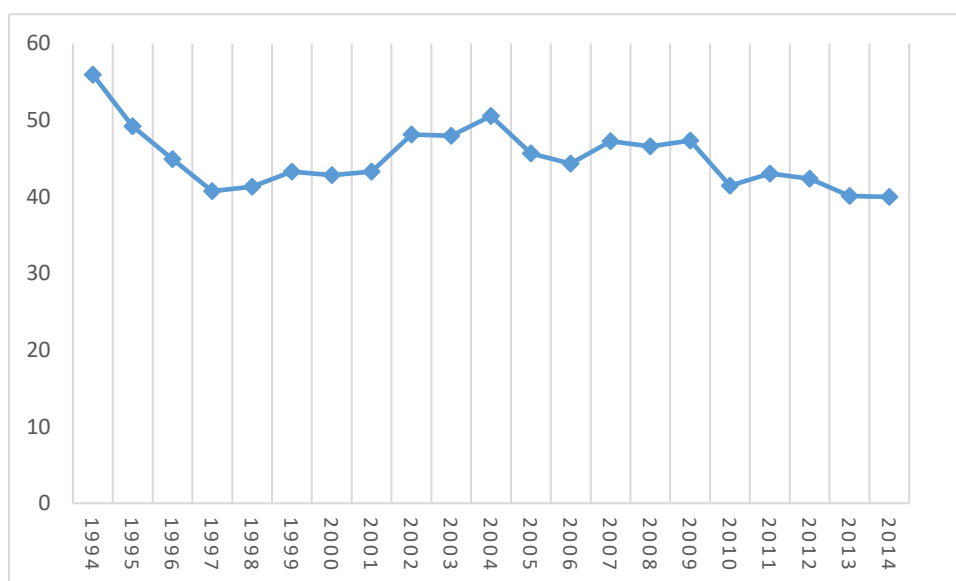


Figure 2. Proportion of transfer payments from the central government out of total local expenditures (%), 1994–2014.

Data sources: Statistics from 1994 to 2005: Li Ping, 2006: 50–107; statistics from 2006 to 2015: Ministry of Finance, from 2006 to 2015.

The extent of fiscal autonomy is quite different among various levels of local governments. From 1990 to 1993, the index of fiscal autonomy exceeded 1.3 in prefectural and township governments, indicating that revenue was greater than budgetary expenditures, and more than 30 percent of revenue was transferred to other tiers of government. The index was greater than 0.7 in county government, indicating that approximately 30 percent of expenditures consisted of intergovernmental fiscal subsidies. The index was around 0.6 in provincial government, and almost 40 percent of expenditures relied on intergovernmental transfer payments from lower-level governments. Overall, local fiscal autonomy was relatively high before the tax sharing reform.

After the tax sharing reform and before the abolition of the agricultural tax, although township governments were the lowest level of government, they enjoyed the highest level of fiscal autonomy because they could directly impose heavy taxes and fees on peasants to sustain their expenditures. However, it grew more difficult to impose agricultural taxes and fees in the late 1990s because the taxation burden grew so heavy that many peasants were unwilling and unable to remit increasing agricultural taxes and fees, and thus township fiscal autonomy declined sharply, leaving in its wake large and widespread rural debt. The expenditure

responsibility of township government remained heavy in the beginning of the rural tax-for-fee reform, and so its autonomy decreased rapidly. After the abolition of the agricultural tax, many expenditure responsibilities were shifted to county government, and thus township fiscal autonomy again increased (Wang, 2006).

The index of prefectural fiscal autonomy remained high, between 0.72 and 0.75 from 1994 to 2001 and between 0.65 and 0.72 after 2002. The provincial government index fluctuated strongly, rising step by step from 0.41 in 1994 to 0.54 in 1997 as the tax sharing reform was launched and then slightly declining to 0.47 or so in 2001, although it increased to 0.68 in 2007 and remained at approximately 0.6 thereafter. Overall, after the tax sharing reform, fiscal autonomy was greatly strengthened in provincial government and was sustained at a high level in prefectural government.

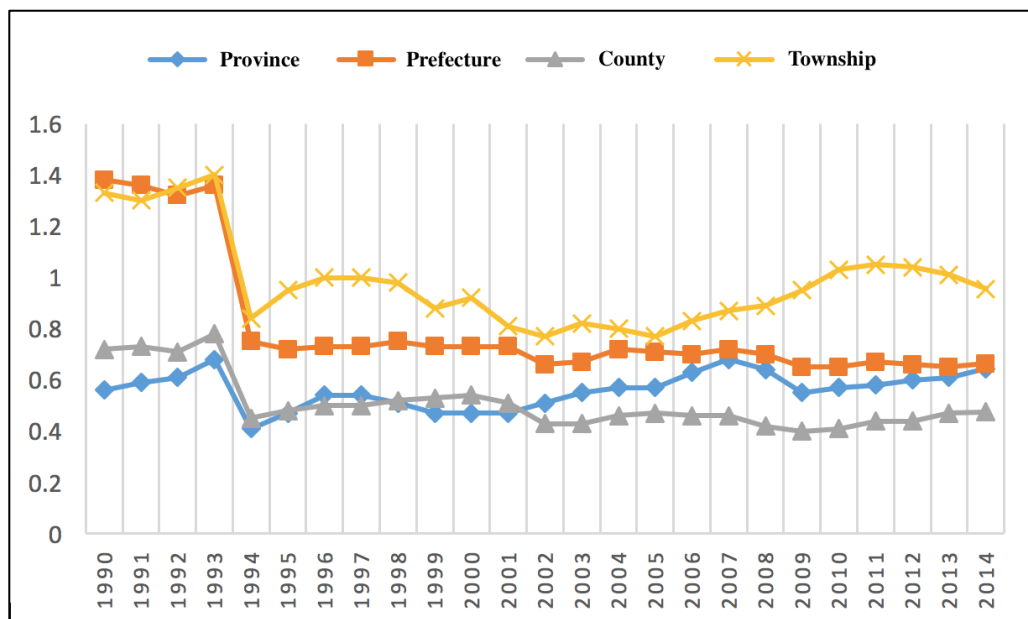


Figure 3. Fiscal autonomy in all tiers of local governments, 1990–2014.

Note: Local fiscal autonomy is defined by the ratio of the local government's own revenues to its total budgetary expenditures.

Data sources: Statistics from 1990 to 1992: Local Fiscal Research, 2010; statistics in 1993:

Tong, 2014: 8; statistics from 1994 to 2011: Treasury Department, 2012; statistics from 2012 to 2014: Treasury Department, 2015.

County fiscal autonomy requires further analysis. Generally, the index of fiscal autonomy has been the lowest in county government since 1994, fluctuating between 0.4 and 0.5. It hovered at around 0.5 from 1994 to 2000, relying on the large revenues from the agricultural tax. Before the rural tax-for-fee reform, agricultural taxes and fees were the primary source of county government revenue in rural areas of central and western China, constituting more than 20 percent of total fiscal revenues. In addition, agricultural taxes were basically the exclusive preserve of county governments since prefectural and provincial governments did not participate in the sharing of agricultural taxes. Therefore, county government enhanced its fiscal autonomy by imposing agricultural taxes before the tax-for-fee reform. After the 2001 reform, the index remained low and continued to decrease to a low point of 0.4 in 2009 for county government. It slowly climbed a few percent after the county-based fiscal system reform from 2009 and further increased to 0.48 in 2014. Obviously, county fiscal autonomy has been low since 1994, and the majority of county expenditures have relied on intergovernmental transfer payments from upper-level governments (see Figure 3).

Why has county fiscal autonomy consistently remained low? The answer requires looking deeper into the status and role of the fiscal systems of different tiers of local governments. In terms of fiscal revenue, the proportion of prefectural revenue out of the total revenues of all tiers of local governments has been consistently high. It was more than 40 percent before the tax sharing reform, decreased by 5 percent from 1994 to 1997, and then remained at approximately 35 percent thereafter. The proportion of provincial revenue rose slowly by 8 to 9 percent after the tax sharing reform (1993–2002) and fluctuated between 25 percent and 27 percent before 2007, and then slowly declined to 20 percent in 2014.

The proportion of county revenue decreased by 2 percent after the tax sharing reform (1993–1998) and for a while was stable at approximately 25 percent, and then increased steadily again after the abolition of the agricultural tax, especially from 2008, to a high point of 39 percent in 2014. The proportion of township revenue increased by 5 percent in the first two years of the tax sharing reform (1993–1994) but decreased by 4–5 percent in the late 1990s and hovered between 10 and 12 percent after the agricultural tax was abolished. Under the CMT fiscal system, most of the revenue of townships was allocated by the county government (Luo and Chen et al., 2008: 72) (see Figure 4).

Thus, the upward centralization of revenue to superordinate governments did not occur in all tiers of local governments after the tax sharing reform. Part of prefectural and county revenue was centralized to the provincial government, and hence the proportion of prefectural and county revenue declined sharply, while the proportion of provincial revenue continued to increase. Township governments imposed increasingly heavy taxes and fees on rural areas, and thus the

proportion of township revenue grew at the beginning of the tax sharing reform. However, it decreased again as the imposition of agricultural taxes became more difficult.

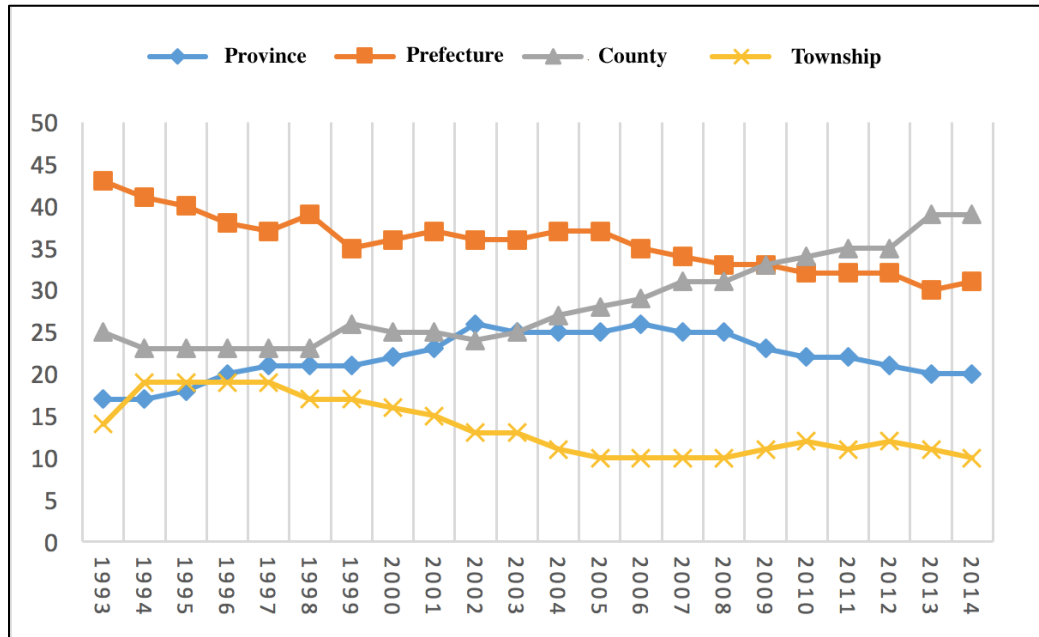


Figure 4. Proportion of local revenue of different tiers out of total local revenues (%), 1993–2014.

Data sources: Same as Figure 3.

In terms of fiscal expenditures, the proportion of provincial expenditures did not rise with the growth of provincial revenue, but in fact declined by one percent from 1993 to 1996, because revenue was centralized and expenditures were decentralized. Afterward, the proportion of provincial expenditures rose to 30 percent in 2001 and then decreased to 18 percent in 2014. The proportion of prefectural expenditures increased significantly between 1994 and 1996, while the proportion of prefectural revenue decreased sharply due to the revenue centralization and

expenditure decentralization in the provinces. After 1998, the proportion of prefectural revenue gradually declined and remained at a level of 27 percent from 2008 to 2014. The proportion of county expenditures decreased by one percent shortly after the tax sharing reform and then remained at approximately 30 percent in subsequent years and decreased by 2 percent in the late 1990s. It rose steadily after the rural tax-for-fee reform in 2001 and reached 48 percent in 2014. The proportion of township expenditures remained at 12 percent or so before the tax-for-fee reform and declined slowly to 6 percent in 2014 (see Figure 5).

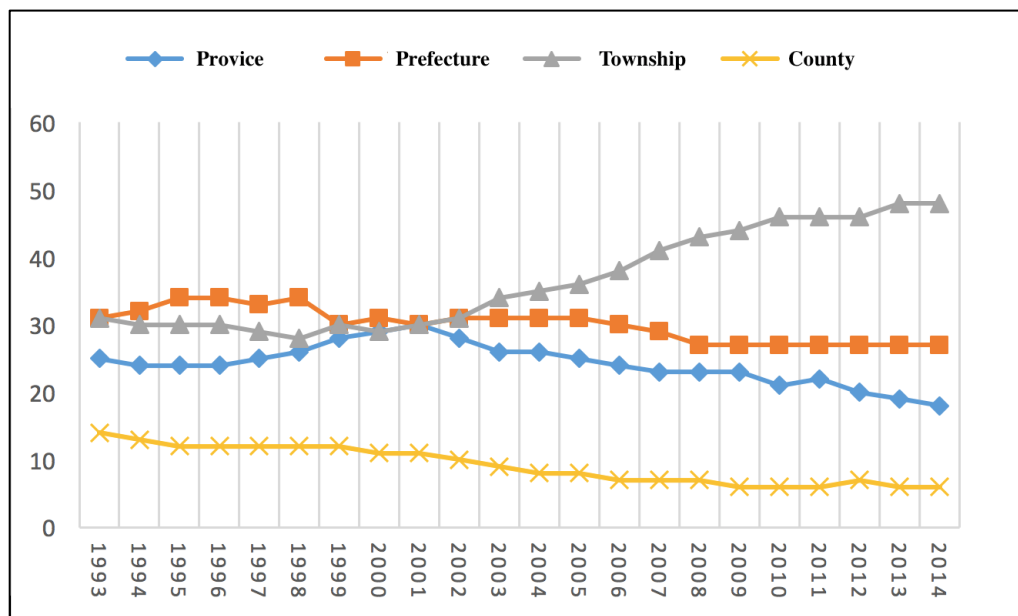


Figure 5. Proportion of local expenditures of various tiers out of total local expenditures (%), 1993–2014.

Data sources: Same as Figure 3.

As the data show, the proportion of county revenues out of total local revenues rose

significantly (by approximately 15 percent) after the tax-for-free reform. County revenue (40 percent) and township revenue (10 percent) constituted half of total local revenues and more than a quarter of national revenues. The proportion of county expenditures out of total local revenues grew faster, rising from 30 percent in 2001 to 48 percent in 2014. County and township expenditures constituted more than half (54 percent in 2014) of total local expenditures and more than 45 percent of national expenditures (46.51 percent in 2014). As a result, county fiscal autonomy declined after the tax-for-free reform (2001–2009). The index fell from 0.53 in 2000 to a low point of 0.40 in 2009. Then, with the county-based fiscal system reform, implemented by the central government across the nation in 2009, county fiscal autonomy increased slowly thereafter. However, the index remained less than 0.5 and lower than the level before the rural tax-for-free reform (see Figure 6).

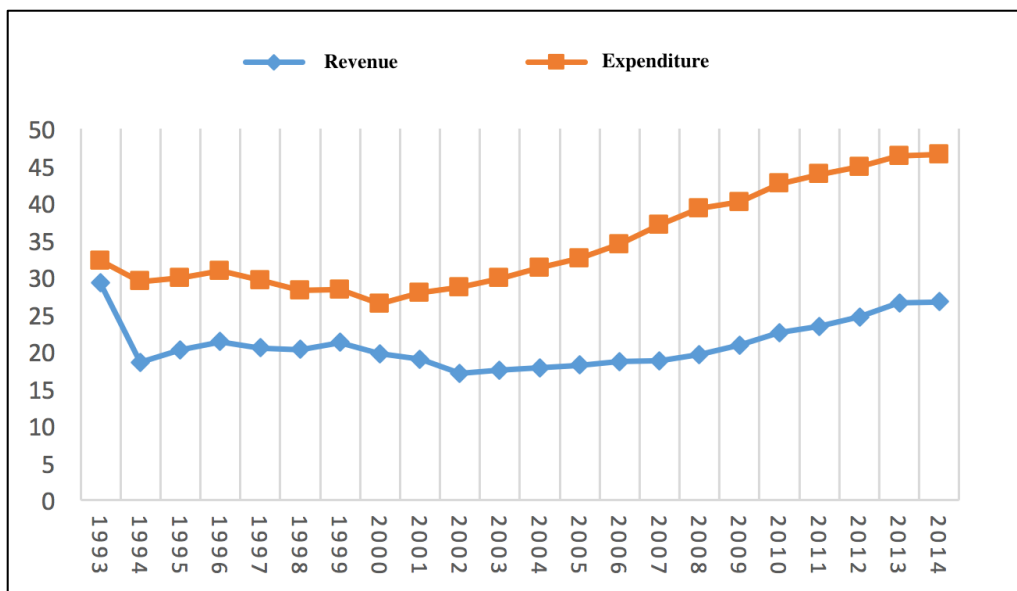


Figure 6. Proportion of county and township revenues/expenditures out of national

revenues/expenditures (%), 1993–2014.

Data sources: Same as Figure 3.

It is clear that county government has become the main subject of national fiscal expenditures, and the county-based fiscal system reform has been basically realized insofar as fiscal expenditures are concerned. However, county fiscal autonomy remains the lowest of all levels of local governments, with more than half of county fiscal expenditures consisting of intergovernmental transfer payments from upper-level governments. These transfer payments come from the central government, provincial governments, and prefectural governments, and the implementation process is very complicated.

County Fiscal Autonomy: A Further Analysis of Regional Differences

Unraveling the complicated intergovernmental fiscal transfer payment system requires a deeper look into county fiscal autonomy. We measured county fiscal autonomy on the basis of the *Financial Statistics of Prefectures, Cities, and Counties Nationwide* in 2007.⁸ We considered in

⁸ *Financial Statistics of Prefectures, Cities, and Counties Nationwide* 全国地市县财政统计资料 is a compilation of basic financial statistics for all of China's counties. It was published annually by the Ministry of Finance beginning in 1993. However, it has been suspended since 2009. The original data for 2008 and 2009 did not classify different types of general purpose transfers (including earmarked funds for salary adjustments and rural compulsory education),

particular different types of intergovernmental transfer payments, and we used three indices to measure county fiscal autonomy.⁹

In terms of the first index, fiscal autonomy is defined as the proportion of the county government's public budgetary revenue out of its total revenue—expressed as *IFA1*, where *IFA1* = *county government's public budgetary revenue/its total revenue*. The second index considers tax rebates—expressed as *IFA2*, where *IFA2* = *county government's public budgetary revenue + tax rebates / its total revenue*. The third index considers both rebates and general purpose transfers—expressed as *IFA3*, where *IFA3* = *county government's public budgetary revenue + tax rebates + general purpose transfers – (adjusted salary transfer payment + rural compulsory education transfer payment) / its total revenue*. *IFA3* considers the influence of general purpose transfers on county fiscal autonomy. To be more accurate, we excluded two earmarked funds from the general purpose transfers (transfer payments for salary adjustments and rural compulsory education) from *IFA3*.

In 2007, there were 2,859 county-level administrative units across the nation, including 856 municipal districts 市辖区, 368 county-level cities 县级市, 1,463 counties, 117 autonomous counties 自治县, 49 banners 旗 (county-level administrative units in Inner Mongolia), 3

and thus the value of *IFA3* is overestimated in 2008 and 2009. In short, an overall and accurate analysis of the statistics is only possible for the year 2007 and before.

⁹ The county financial statistics used in the following section include the fiscal revenues and expenditures of both county and township governments.

autonomous banners 自治旗, 2 special regions 特区, and one forest region 林区. Our research excludes municipal districts, which enjoyed far more fiscal autonomy than the rest of the county-level units. In the end, 1,988 typical counties were selected for the research,¹⁰ including 373 in eastern China, 746 in central China, and 869 in western China, with the exclusion of 15 special county-level units. An analysis of fiscal autonomy in these counties can reveal the overall contours and the fiscal situation in China's counties.

First, the data show that county fiscal autonomy is quite low. *IFAI* is less than 0.1 in 314 counties (almost one-sixth of the total) and even less than 0.05 in 100 counties. *IFAI* is between 0.1 and 0.2 in 539 counties (more than one-fourth of the total) and between 0.2 and 0.3 in 425 counties. In sum, *IFAI* is less than 0.3 in 1,278 of the 1,988 counties we studied. In other words, in approximately 65 percent of the counties, fiscal subsidies from upper-level governments constitute more than 70 percent of their total local revenue. *IFAI* is between 0.3 and 0.4 in 205 counties, between 0.4 and 0.5 in 286 counties, and greater than 0.5 in only 239 (see Figure 7).

¹⁰ The category "typical counties" include counties, county-level cities, autonomous counties, and (in Inner Mongolia) banners. For simplicity, we have termed these county-level units *counties* in the rest of this article.

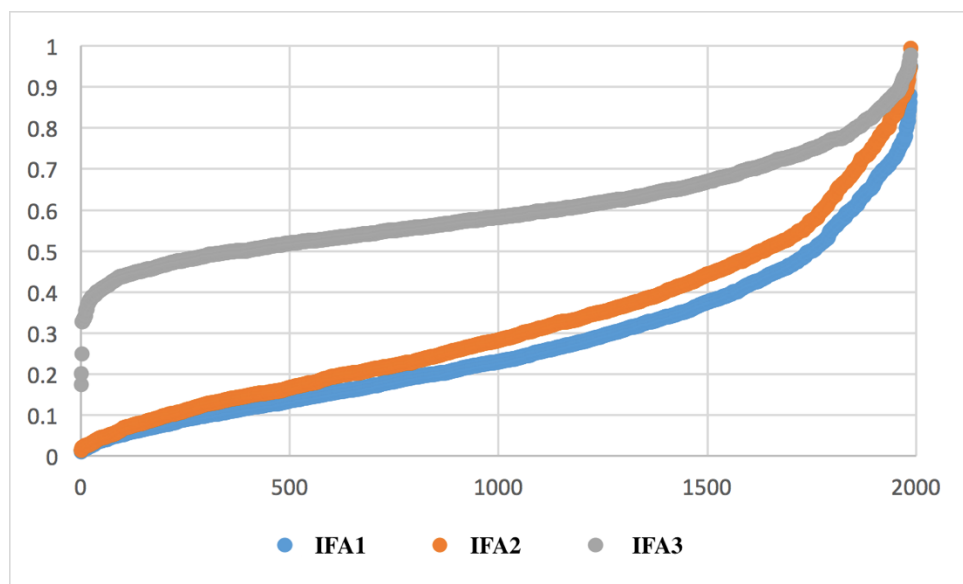


Figure 7. Rank distribution of three indices of county fiscal autonomy.

Note: The values of the three indices are presented in a rank distribution.

After considering the tax rebates from superordinate governments, county fiscal autonomy saw a slight increase from 3 percent to 5 percent on average. Figure 7 shows that the *IFA2* curve is only slightly above *IFA1* curve. The *IFA2* is less than 0.3 in more than 50 percent of the counties, less than 0.4 in 70 percent, and less than 0.5 in 80 percent.

County fiscal autonomy increases significantly after general purpose transfers are taken into consideration. *IFA3* is less than 0.3 in only 3 counties, less than 0.4 in only 38 counties, and between 0.4 to 0.5 in 347 counties (17.5 percent of the total)—that is, *IFA3* is less than 0.5 in fewer than 20 percent of all of the counties. In addition, *IFA3* is between 0.5 and 0.6 in 751 counties (37.8 percent of the total), and between 0.6 and 0.7 in 468 counties (23.5 percent of the total)—in other words, *IFA3* is between 0.5 to 0.7 in 60 percent of all the counties. In another 20 percent of the counties, the *IFA3* is greater than 0.7 (see Figure 7).

From the results, we can see that the commonly used index (*IFAI*) significantly underestimates county fiscal autonomy because tax rebates and some general purpose transfers from above can also be allocated autonomously by county governments. However, if we added all of the general purpose transfers, county fiscal autonomy would be overestimated because some transfer payments from among general purpose transfers are earmarked by superordinate governments.

General purpose transfers not only enhance county fiscal autonomy but also narrow the gap in county fiscal autonomy across regions, which is clearly shown in Figure 8. Tax rebates fail to narrow the disparities in county fiscal autonomy across the country; instead they enlarge the gap across regions. Counties with greater fiscal autonomy receive more tax rebates, further enhancing their fiscal autonomy. However, general purpose transfers narrow the gap across regions. More specifically, counties with lower *IFAI* receive more general purpose transfers, which promotes their fiscal autonomy, while counties with higher *IFAI* receive fewer general purpose transfers. After considering the effect of general purpose transfers, the indices of fiscal autonomy in most counties range from 0.5 to 0.7.

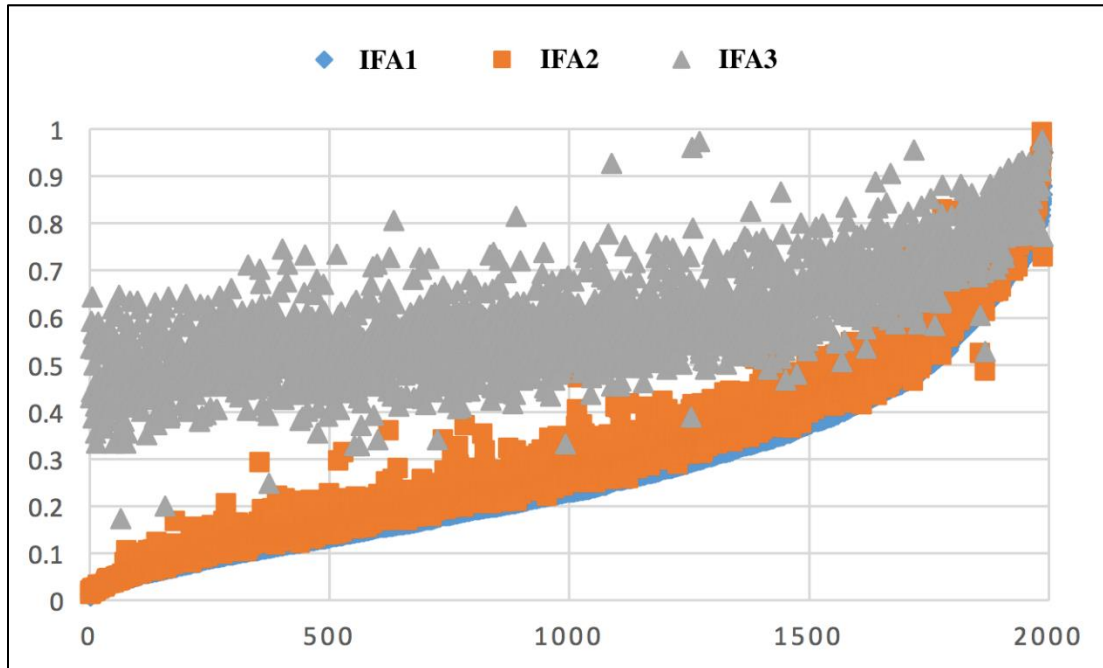


Figure 8. Scatter plots of three indices of county fiscal autonomy.

Note: The values of the *IFA2* and *IFA3* indices are presented as scatter plots. The curve at the bottom is *IFA1*, arranged in ascending order, and the scattered distributions of *IFA2* and *IFA3* correspond to *IFA1*. The figure reflects the influence of tax rebates and general purpose transfers.

County fiscal autonomy varies greatly across regions (see Figures 9 and 10). Of the 373 counties in the eastern region we studied, *IFA1* is less than 0.3 in 101 counties, between 0.3 and 0.4 in 84 counties, between 0.4 and 0.5 in 68 counties, greater than 0.5 in 120 counties (approximately 30 percent of the eastern counties), and greater than 0.6 in 87 counties. Of the 746 counties in the central region, *IFA1* is less than 0.2 in 295 counties (40 percent of the central counties) and less than 0.3 in 505 counties (approximately 70 percent of the central counties). Nevertheless, *IFA1* is less than 0.4 in 615 counties (more than 80 percent of the central China

counties) and more than 0.5 in less than 10 percent of counties in the central region. Of the 869 counties in the western region, *IFA1* is less than 0.2 in 531 counties (more than 60 percent of the western counties), less than 0.3 in 672 counties (approximately 80 percent) and greater than 0.4 in 108 counties (slightly more than 10 percent).

When tax rebates are figured in, county fiscal autonomy only slightly increased. In the eastern region, the index of county fiscal autonomy increased by 5 to 10 percent so that *IFA2* is greater than 0.3 in more than 85 percent of the eastern counties and greater than 0.4 in 65 percent of the counties. In the central and western regions, however, the contribution of tax rebates is slight. Factoring in tax rebates, the index of fiscal autonomy rises by less than 5 percent in both areas, and the curves of *IFA1* and *IFA2* almost coincide with each other (see Figure 9).

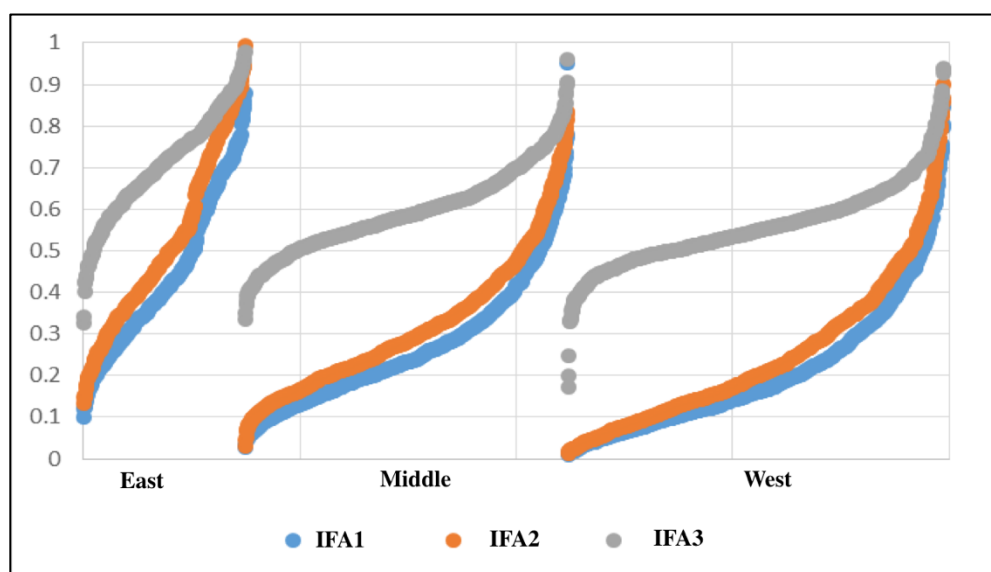


Figure 9. Rank distribution of county fiscal autonomy in the eastern, central, and western regions.

Note: The values of the three indices in three regions are presented in a rank distribution.

With the addition of tax rebates and general purpose transfers, county fiscal autonomy has increased significantly. In the eastern region, *IFA3* is greater than 0.3 in all of the counties (*IFA3* is between 0.3 and 0.4 in only two counties). Specifically, *IFA3* is less than 0.5 in only 23 counties (6 percent of the eastern counties), less than 0.6 in 77 counties (21 percent), between 0.6 and 0.7 in 95 counties (25 percent), between 0.7 and 0.8 in 112 counties (30 percent), and greater than 0.8 in 89 counties (24 percent). In other words, *IFA3* is greater than 0.6 in more than 80 percent of the eastern counties and greater than 0.7 in approximately 55 percent of the eastern counties. County fiscal autonomy has undergone a greater increase in the central and western regions. In the central region, *IFA3* is greater than 0.3 in all of the counties. Furthermore, *IFA3* is less than 0.5 in only 120 counties (16 percent of the central counties), between 0.5 and 0.6 in 306 counties (41 percent), between 0.6 and 0.7 in 204 counties (27 percent), and greater than 0.7 in 116 counties (16 percent). In other words, *IFA3* is greater than 0.5 in more than 80 percent of the counties in central China, where the index is between 0.5 and 0.7 in the majority. In the western region, *IFA3* is less than 0.3 in only 3 counties, less than 0.4 in only 28 counties, between 0.4 and 0.5 in 214 counties, between 0.5 and 0.6 in 391 counties, between 0.6 and 0.7 in 169 counties, and greater than 0.7 in 67 counties. In other words, in the western region, *IFA3* is between 0.5 and 0.7 in 64 percent of the counties, less than 0.5 in only 28 percent of the counties, and greater than 0.7 in 8 percent of the counties.

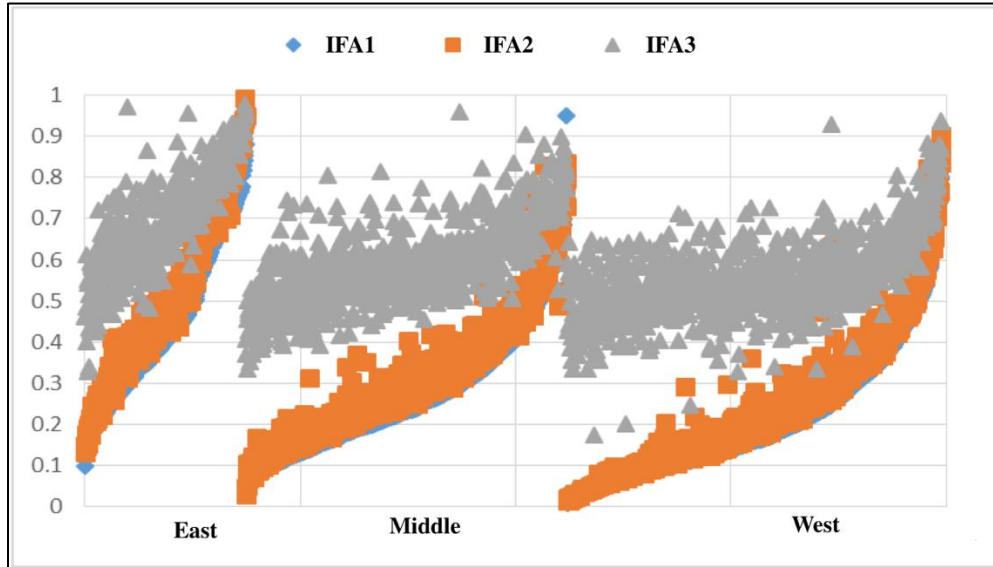


Figure 10. Scatter plots of county fiscal autonomy in the eastern, central, and western regions.

Note: The values of *IFA2* and *IFA3* indices are presented as scatter plots. The curves at the bottom are *IFA1*, arranged in ascending order, and the scattered distributions of *IFA2* and *IFA3* correspond to *IFA1*. The figure reflects the influence of tax rebates and general purpose transfers.

Historical Evolution of County Fiscal Autonomy

We now turn to the historical evolution of county fiscal autonomy in different regions. In the eastern region, county fiscal autonomy is significantly stronger than in the central and western regions (Li, 2010: 105, 163; Wang and Yang, 2014). Since 1994, *IFA1* in eastern China has been increasing steadily, while *IFA2* has remained stable, except for the few years influenced by the income tax sharing reform. *IFA3* slightly increased after 2000 and remained stable thereafter (see Figure 11). In addition, the positive effect of tax rebates on county fiscal autonomy was enormous in the late 1990s, but decreased later. Conversely, the contribution of general purpose transfers was small before 2000 but grew afterward and surpassed that of tax rebates.

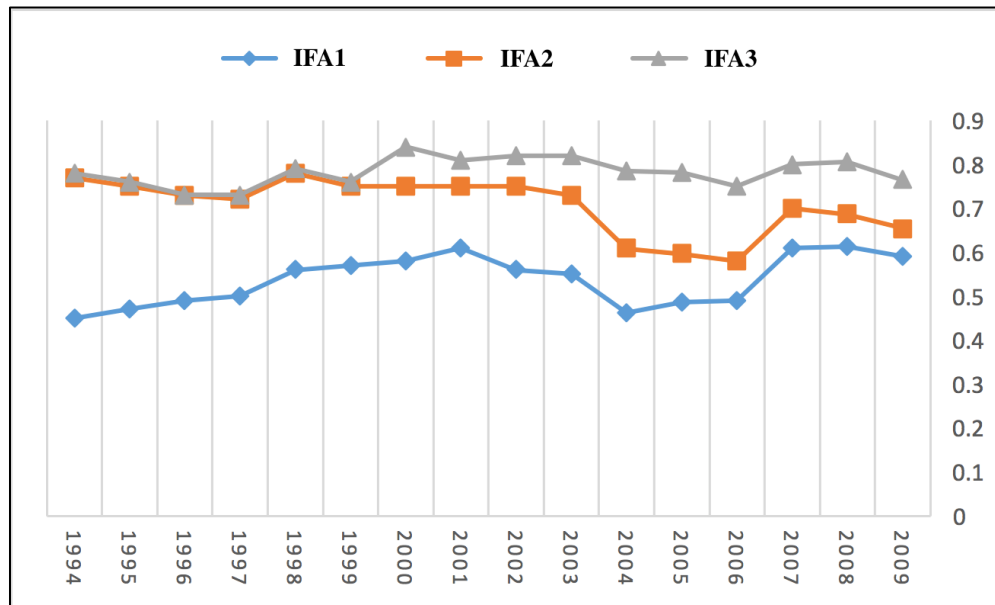


Figure 11. Historical evolution of county fiscal autonomy in the eastern region, 1994–2009.

In the central region, *IFA1* underwent a slight increase in the mid- and late 1990s but decreased thereafter; *IFA2* remained stable before 2000 and later decreased; *IFA3* also remained stable in the early stages and slowly declined with fluctuations after the late 1990s since the scale of income taxes going to the central government from the eastern region was variable (see Figure 12).¹¹ As in the eastern region, in the central region the contribution of tax rebates was significant at first but then gradually diminished, while the contribution of general purpose

¹¹ All of the increase in central fiscal revenue due to the income tax sharing reform is transferred to central and western China to narrow the regional gap. Actually, it is the main source of the general transfer payments (State Council, 2001; State Council, 2003).

transfers was slight at first but increased dramatically after 2000 and surpassed that of tax rebates.

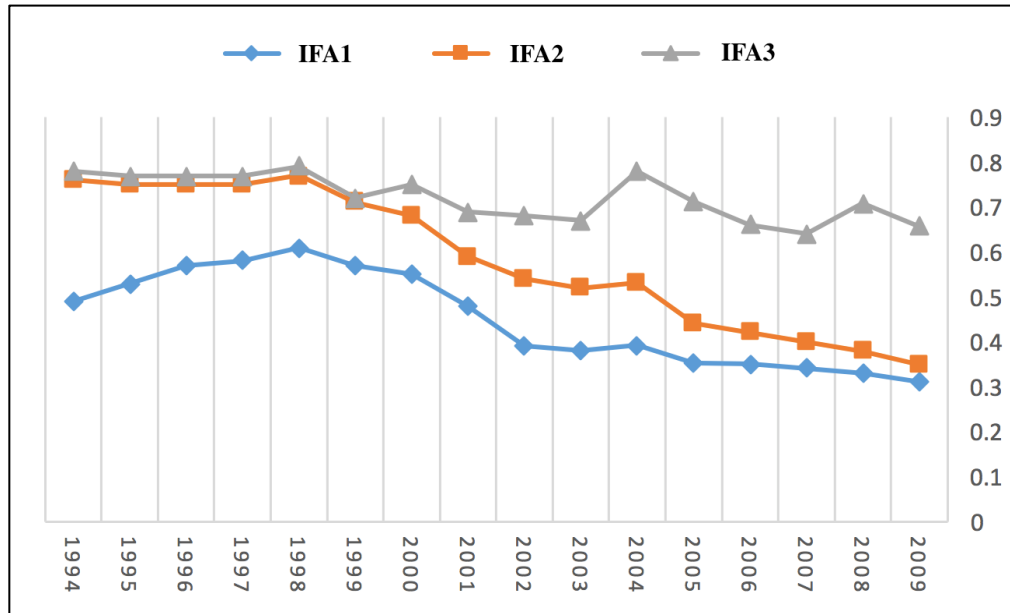


Figure 12. Historical evolution of county fiscal autonomy in the central region, 1994–2009.

The evolution of county fiscal autonomy in the western region is similar to that in the central region. *IFA1* increased soon after the tax sharing reform but declined thereafter; *IFA2* was stable at first and then also decreased; *IFA3* remained stable in the beginning and subsequently decreased, with substantial fluctuations, under the impact of general purpose transfers from the central government (see Figure 13). The contribution of tax rebates was enormous at first but declined after 2000, while general purpose transfers had a very substantial and positive effect in the beginning and continued to increase. General purpose transfers have now become the main motor of county fiscal autonomy.

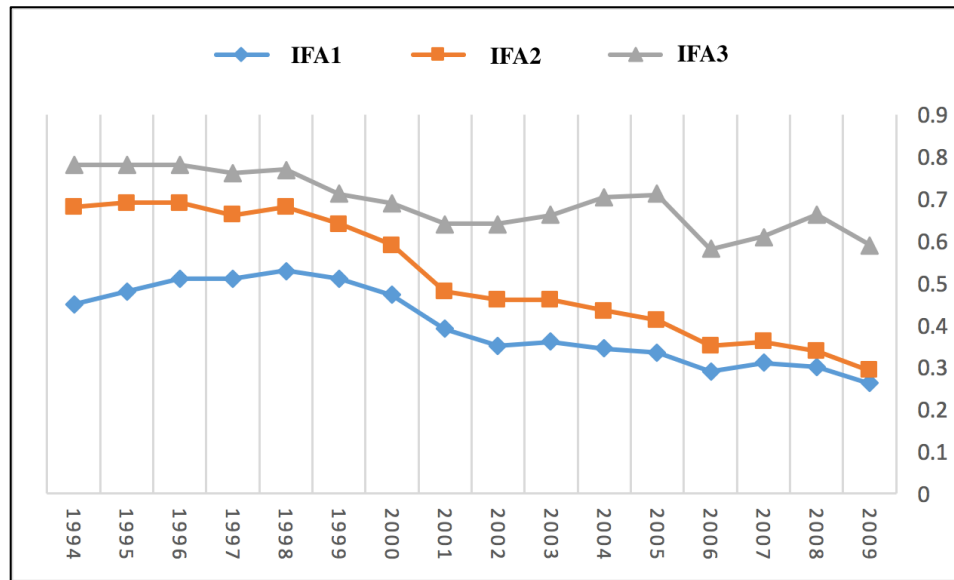


Figure 13. Historical evolution of county fiscal autonomy in the western region, 1994–2009.

If one ignores tax rebates and general purpose transfers, county fiscal autonomy generally expanded in the mid- and late 1990s across the country (according to *IFA1*). However, county fiscal autonomy gradually declined after 2000. Trends, however, differed from region to region. In eastern China, county fiscal autonomy dropped sharply in the beginning of the 2000s due to the impact of the income tax sharing reform but increased again soon afterward. In central and western China, county fiscal autonomy decreased for a long time due to the rural tax-for-fee reform and the income tax sharing reform. As a result, the gap between the eastern region and the central and western regions expanded.

If one takes tax rebates and general purpose transfers into account, county fiscal autonomy increased substantially in all of the regions, especially in the central and western regions. Tax

rebates had an important impact before 2000 but decreased soon thereafter. The contribution of general purpose transfers grew, albeit with substantial fluctuations, after 2000 since the amount of income taxes coming to the central government from the eastern region varied from year to year. The gap would have been still greater were it not for general purpose transfers. General purpose transfers significantly narrowed the gap across the three regions. Even so, the index of fiscal autonomy (*IFA3*) is between 0.6 and 0.65 in most counties in the central and western regions. In other words, approximately 35 to 40 percent of county governments' expenditures rely on earmarked funds from upper-level governments, a fact that has had a substantial effect on the administrative autonomy of county governments.

Conclusion and Discussion

After the tax sharing reform was launched in 1994, fiscal autonomy dropped sharply at all levels of local government, while a great disparity in fiscal autonomy across different levels emerged. Township governments maintained a high level of fiscal autonomy by imposing taxes and fees on rural areas. Fiscal autonomy also remained relatively high in prefectural governments. Provincial governments bolstered their fiscal autonomy through fiscal centralization and expenditure decentralization. However, county fiscal autonomy remained low, with more than half of county governments' expenditures relying on transfer payments from upper-level governments.

Since the rural tax-for-fee reform of 2002, the central government has implemented a county-based fiscal system reform. Provincial fiscal autonomy has fluctuated upward and has

been close to the level of prefectural fiscal autonomy in recent years. Although prefectural fiscal autonomy has experienced a slight drop, it still remains high. County fiscal autonomy continued to decline after the tax-for-fee reform. The index of county fiscal autonomy reached a low point of 0.4 and climbed gradually after 2010 but was never greater than 0.5. This low level is due to county governments' responsibility for enormous expenditures combined with their low revenue capacity. Thus far, county expenditures constitute almost half of national fiscal expenditures. However, a county-based fiscal system has been realized only in expenditures and not in revenues. This hinders the development of a balanced county-based fiscal system.

There are regional difference in county fiscal autonomy. Fiscal autonomy is high in most of the eastern counties, but even there disparity can be found. County fiscal autonomy is quite low in the central and western regions, with an index of less than 0.2 in many counties, indicating a heavy dependence on transfer payments from upper-level governments. Tax rebates make almost no contribution to the balance of county fiscal autonomy across regions and even enlarge the gap. General purpose transfers significantly expand county fiscal autonomy and narrow the gap across regions.

The evolution of county fiscal autonomy has also varied greatly across regions. Overall, county fiscal autonomy remained low for a long time, with increases and decreases within a narrow range. In the eastern region, however, county fiscal autonomy increased steadily for years. At the same time, it decreased continuously in the central and western regions and would have been extremely low without general fiscal transfer payments.

In the central and western regions, county fiscal autonomy remains low and continues to

decrease under the influence of both regional and hierarchical differences. As a result, county governments' administrative authority and responsibility for expenditures have expanded due to the county-based fiscal system reform, but since counties have limited capacity to generate revenue, they have had to increasingly rely on higher-level governments. In addition, since earmarked funds from higher-level governments constitute a greater proportion of county budgets in the central and western regions, county governments in these regions evaluate and allocate the funds in such a way as to cement a connection between the central government and local society, significantly influencing the county's administrative autonomy. As the regional gap in local fiscal autonomy increases, a substantial amount of fiscal revenue is transferred from the eastern region to the central and western regions through the central government. It will be a long-term and difficult challenge to balance the developmental differences across regions under China's unified fiscal system.

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