Analysis of the financial capacity status of county governments in China

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\textbf{Abstract:} This paper analyzes the current situation and imperfections of county-level finance in China, points out the problems in county-level finance, and proposes a series of targeted suggestions aimed at more effectively mobilizing the enthusiasm of county-level governments, solving the problem of county-level financial expenditure, and promoting the healthy and stable development of rural economy.

1. Introduction

County governments play an indispensable role in China's political development, financial development, and social regulation, and are the most stable and structurally integrated level of local government, and have the closest connection with the general public. As the most directly related to social public services and related expenditures, whether or not the county government utilizes effective management methods directly affects the stability and progress of the society. In reality, if its financial system cannot effectively adapt to the social reality, then the county government will not be able to meet the needs of China's county-related public service expenditures. On the contrary, if the problems related to finance in social development are analyzed and paid attention to, it is possible to have a more scientific financial system. This will effectively improve the financial capacity of county governments nationwide, enhance their governance capacity and improve the degree of social stability.

2. Basic concepts of government financial capacity

The core of China's definition of finance lies in the fact that in order to provide citizens with public goods and services, the Government concentrates part of the resources of society to satisfy the common needs of the public, and this kind of distributive behavior or economic activity is finance. Its purpose is to provide financial supplements for the government to carry out its economic, cultural, ecological and other duties, and the government's financial strength represents the assurance that all levels of government will support its functions in carrying out its revenue and expenditure activities. It is a capacity that reveals how well or how poorly a government is governed, and it is also the material basis on which the government carries out its basic duties.
3. Problems with the current state of county finances and analysis of their causes

3.1 Analysis of the current situation

3.1.1 Inadequate fiscal decentralization system

The current situation of county-level finance in China is manifested in the following ways: first, since the reform of the tax system initiated in China, the main focus has been on clearly defining the distribution of tax revenues between the central and local governments. However, China's administrative areas are divided into provinces, cities, counties and townships (or townships). In this tax reform, the delineation of the material and financial powers of governments at the sub-provincial level has not been fully taken into account. As a result, in actual operation, local governments at the sub-provincial level, when faced with the issue of the division of responsibilities and financial powers, still rely mainly on the overall planning of the provincial government\[1\]. When county governments apply for transfer payments or tax refunds according to regulations, provincial and municipal governments often delay payments or fail to provide funds in a timely manner. For example, in three provinces in northeastern China, county-level government expenditures often accounted for a higher proportion of fiscal revenues than did fiscal revenues, indicating an important fiscal problem.

3.1.2 Low level of revenue at the district level

The goal of the reform of tax distribution is to realize a rational distribution of tax revenues on the basis of tax types and tax bases. Local government finances come mainly from fourteen types of taxes, such as value-added tax, income tax, resource tax, property tax and farmland tax, which also cover the major taxes shared with the national central government. Although the revenues of many small taxes go to the local level, given their small tax base and limited scale, they still cannot alleviate the shortage of major taxes of the county governments\[2\]. In the current fiscal system, there is still a large number of local governments that are not financially self-sufficient. The low level of revenue has led to some negative problems, such as the fact that many county governments in China's provinces still choose to borrow money to cope with the problem of insufficient funds, which has significantly accelerated the growth of local debt at the grassroots level. Today, the debt of many county governments is already floating outside the scope of supervision, with a certain degree of secrecy, coupled with the strong resource characteristics of debt repayment, and its solvency is clearly insufficient in comparison with the continuing rise in invisible debt.

3.2 Reasons for the reality of financial difficulties at the county level

3.2.1 Incomplete legal setup for county government finance

The inadequacy of the legal structure has led mainly to a lack of clarity in the scope of authority and financial power. A study of most of the countries with market economies around the world shows that their fiscal systems have clearly defined, at the constitutional level, the financial and administrative powers of all levels of government, which provides strong legal support for governmental action\[3\]. However, although our Constitution has clearly defined the main functions of all levels of government, the definition of functions and financial responsibilities between governments remains theoretical and does not provide concrete solutions, resulting in unclear relationships of responsibilities between all levels of government, especially in the implementation of cross-regional cooperation projects. The professional documents issued by the central government only assign key responsibilities to each level of government, mainly for the purpose of guiding the work, without specifying the specific details of the work of each level of government, so that the local governments can only comply with the administrative orders of the central government. In addition, the relative imperfection of the tax-sharing system with respect to county-level finances has resulted
in the vast majority of revenues being dominated by higher levels of government, which has not expanded the financial resources available to local governments in line with the expansion of their authority.

3.2.2 Relatively single source of fiscal revenue for county governments

First of all, the development of county-level economy is still relatively slow, and many counties and cities rely mainly on agriculture as a source of income, with a weak industrial development base and a single industrial structure, which makes the sources of tax revenue not rich enough. On this basis, top-level governments usually adjust the proportion of tax revenue they share with their subordinate governments, and at the same time specify the types of tax revenue that lower-level governments need to submit to higher-level governments. Typically, provincial governments set provincial taxable items in sectors that generate major revenues, such as tax revenues from finance and insurance, which leads to a lack of transparency in key tax revenues at the county level. Ultimately, the main taxes retained by county governments include stamp duty, deed tax, and cultivated land occupation tax, etc. Lacking the power to legislate on tax revenue, county governments have been able to supplement their coffers mainly through non-tax revenue. Continuously high non-tax revenues may not only lead to the risk of fluctuating fiscal revenues, but may also disrupt the market's decision-making considerations on resource allocation. Frankly speaking, county governments, as the main promoters of public services, must assume responsibility for major infrastructure development. However, compared with provincial and municipal governments, county governments do not have an advantage in terms of fiscal revenues, which alone are insufficient to meet their rigid fiscal expenditures and need to be compensated for by the introduction of other resources.

4. Measures to improve and enhance financial governance at the county level

4.1 Improve the tax system and set up the financial performance management of county governments

The implementation of a tax-sharing system should define the scope of authority of the various levels of government and allow local governments to have certain taxing authority, a statutory source of fixed income and financial security. Therefore, based on the principle of reciprocity of power and responsibility, two sets of tax systems should be established for the central and local governments, to be managed, collected and utilized separately. On this basis, the performance management mechanism of county-level financial funds can be set up, and a strong performance management mechanism of financial funds is the core way to effectively optimize the allocation and use of public financial resources so as to improve the efficiency of government services. Against the background of the county-level government's financial revenue and expenditure problems becoming more and more prominent, the performance management system can obviously bring about an important role in improving the efficiency of government capital and other aspects[4]. It is recommended that the Government be promoted and guided to rapidly build a full-coverage government budget performance management system, and that local government departments be promoted and guided to deeply implement budget performance management first. It also pushes the government to improve performance evaluation methods, comprehensively enhance the government's performance control capacity, and strengthen the application of performance results. The evaluation results will be associated with the next year's budget to guarantee high efficiency and improve the scientific and precise nature of the budget.

4.2 Increase the revenue of our county governments

The Government actively promotes rural economic development at the county level. On the one
hand, most townships today still rely on traditional primary industries as the mainstay of their economy, so that the agricultural sector should be optimized and strengthened in order to promote the development of the rural economy. [3] On the other hand, the problems that hinder the economic development of the townships are mainly concentrated in the rural areas, according to this provision, the tax revenues that should belong to the townships should be returned to the townships to further stimulate the vitality of the economic development of the townships. The townships in different parts of the country should find out the characteristic industries suitable for local advantages according to local conditions, so as to promote the steady growth of the tax revenue of the townships. Once again, the Government needs to further optimize the soft environment for economic development in townships. The maximum possible use of the township government's policy-oriented role, through the establishment of industrial guidance funds, financial subsidies, preferential credit, tax exemptions and other ways to guide the development of enterprises, to provide theoretical and practical support for business decision-making. Finally, the Government should further improve the infrastructure of the townships. Inefficient allocation of financial resources is the main reason for the township government's financial constraints and poor financial results, and at the same time, lagging infrastructure hinders the development of the rural economy, forming a vicious circle between the two, making the lack of infrastructure in some of the backward townships a bottleneck for rural economic development. The problems of guaranteeing the minimum government consumption expenditure and solving the risk of government indebtedness have exerted great pressure on the county-level finance[5]. Therefore, it is recommended to optimize the structure of tax distribution and to promote the power and financial responsibility of the central and local governments and provincial-level government organs as soon as possible.

Therefore, it is recommended to optimize the tax distribution structure, expeditiously promote the reform of the division of power and financial responsibility between the central government and local governments and provincial-level and sub-provincial government organs, and increase the subsidies from the central government to the villages to guarantee the basic funds and various livelihood policy expenditures, so as to further improve the financial capacity of villages.

The Government should take the lead in establishing a process that can create a virtuous circle of financial conditions in the country's counties. It should improve county infrastructure, increase investment in public products and services, optimize the investment environment, and increase the number of enterprises and institutions based in counties. Strengthen supervision and management and improve the efficiency of financial revenue. As a result, the tax base will gradually increase, and tax is the main source of county-level public finance revenue. In the case of increasing tax base, the economic level of the county will gradually increase, and the disposable tax revenue will increase, and the economic level of the region will also increase. On the basis of the increase in economic level, more high-quality enterprises will be attracted to settle in the county, and the government will be able to deploy more sufficient resources and provide more favorable policies to enterprises, thus forming a virtuous cycle of optimizing the county financial environment.

References