

Analysis of the change of government macro-control ability in the reform process of tax sharing system

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Abstract: Throughout the continuous tax reform since the reform and opening up, China's transition from the planned economy system to the market economy system and the socialist market economy in the process of continuous improvement, the development of the national economy on the "visible hand" to play the function of the requirements, the level of continuous improvement. Tax itself is an important macro-control tool, but also related to government finance, which in turn affects government purchases, transfer payments and their allocation between the central and local governments. The great significance of tax reform to the government's macro-control ability can be seen in this paper. Judging from the process of tax sharing reform, the macro control ability of the Chinese government has been continuously strengthened. At present, China has entered a new stage of development, emphasizing the combination of an efficient market and a competent government. Studying the changes in the government's macro-control capacity in the process of tax sharing reform is of great reference significance for China to play the role of "promising government" and implement the new development concept.

1. Introduction

The reform of tax sharing system is an important aspect of reforming the superstructure in order to adapt to the development of economic base in the process of deepening reform and opening up. The progress of China's tax reform has been accompanied by the growth of the socialist market economy with Chinese characteristics. It has been a long time since 1980 when the central and local governments "eat at different cooking places", and 1994 when the tax sharing system was formally implemented, until 2014 when the business tax was replaced with value-added tax. Tax system reform involving various relations between the central government and local government, the government macroeconomic regulation and control way and the ability to go up to also have many effects: first, the tax T itself is an important fiscal policy regulation tools, its system change must begin from the tax on the function of macroeconomic impact China's economic and social aspects;Second, related to the performance of government functions, the tax system affects the

finance, and the finance is a major source of government purchase G and transfer payment TR; Third, the tax system affects the division of tax revenue between the central and local governments, objectively affects the allocation of government purchases and transfer payments, and then affects the coordination of resources in the country, as well as social equity.

2. The Pilot Phase of the Overall Rationing System

2.1 Implementation of the Overall Rationing System

Under the background of reform and opening up, the reform of the financial tax system and the reform of the overall economic system were in a line of thought at the beginning. Both for the overall economic system and for the tax system, it is inclined to the ideas of "delegating power, making profits, loosening restrictions and enlivening", hoping not only to mobilize the enthusiasm, creativity and initiative of local governments, enterprises and people, but also to ensure the central fiscal revenue [1]. The effect of the pilot program of "linking revenues and expenditures, sharing in full, sharing in proportion and keeping them unchanged for three years", which was initially implemented in 1980, is also in line with this thought and expectation.

The results of the initial pilot program were as follows: provincial, prefectural, county and other regional organizations became subjects with independent economic interests, acquired institutional motivation and ability to develop local economy, and aroused the enthusiasm of local governments in economic development. However, the essence of "delegating power" and "making profits" is at the cost of increasing or decreasing financial revenues and expenditures, and the disadvantages are: the local and local financial mechanism becomes disorganized and resources are wasted [2].

2.2 Effect of the Exclusive System: The Central Government's Macro-Control Ability Becomes Weaker

In general, in the field of tax reform, the patronage system is not ideal for the overall economic system reform. Delegating power and making profits can improve the overall economic and social vitality, but at the cost of the central government's fiscal revenue. If the central government does not carry out appropriate reform, it will be under great pressure. In general, the central government will be too rich for local governments and enterprises, so as to waste resources, but the central government will be tight. It is difficult for the central government to control the expansion of demand, and it can hardly adjust the deterioration of the structure. Moreover, the fiscal contract system has not changed the disorder of fiscal and tax operation, and the central government cannot even guarantee the expenditure needs of daily operation.

If the deficit is severe, the government will be further curtailed in its ability to regulate the economy. Further reforms are therefore urgently needed. The political authority of the central government is bound to be based on its economic authority. If the central government's economic authority is weak and unable to play a leading role in macro-control, its political authority is not solid.

2.3 The Entry Stage of "Tax Division" under the Exclusive System

After the five-year pilot of "dividing revenue and expenditure, classifying the revenue and expenditure by different levels", "dividing tax categories, checking revenue and expenditure, classifying the revenue and expenditure by different levels" will be carried out. In this stage, the element of "tax types" was added, and the central taxes were distributed according to the types of taxes, such as customs duties and consumption taxes. Local taxes, such as deed tax and urban land

use tax; Shared taxes, such as value-added tax, become the source of the tax sharing system [3]. The basic logic and thought of the tax sharing system are presented. The proportion and quota under the exclusive system are not suitable for the overall financial situation, and there is no same standard in the whole country, so the space for artificial operation is relatively large.

The progress at this stage was the addition of "tax division". However, the problem is that this improvement is only for the micro level, the macro level of a large range of overall reform did not touch. Specific performance: this stage is only the central government delegated financial power to local governments, not from the institutional framework to touch the overall financial system, at the same time, in the planned economic system, the public finance and enterprise finance are not separated from the fiscal budget and enterprise budget is still not changed. The overall economy is still operating under the original framework, and the instability of the macro economy will affect the reform at the micro level, so the reform at the macro level is imperative.

The central government has taken into account all aspects of the reform, deliberated and coordinated the opinions of various sectors, and added the reform idea of "enhancing the ability of macro-control", with the intention of organically integrating planning with the market and micro-economic enlivening with macro-economic control. However, the reform at the macro level, after all, involved a wide range of areas, uncertainties, and numerous opposition, and at that time, faced with another major reform - the contract management responsibility system, the tax sharing reform had to give way temporarily.

3. The Urgent Requirement of the Economy on the Ability of Macro-Control: The Formal Shift to the Tax Sharing System

Under a series of problems arising in the process of implementation and change of the exclusive system, the idea of tax sharing system is gradually extended. The basic idea is not only to ensure the vitality of the economy and society, the enthusiasm, creativity and initiative of enterprises, local governments and individuals, making profits is indispensable, but also to ensure the central finance and its operation, regulation and control ability. It is not in such a highly centralized financial state or giving full freedom to local governments [4]. Eclectic and Keynesian ideas combine freedom, initiative and regulation. The previous reforms also laid the institutional foundation for monitoring the current "efficient market combined with productive government". The transition from the exclusive system to the tax sharing system has gradually deepened the significance of the central government's macro-control.

At the beginning, the central government made huge profits during the implementation of the system, and some developed areas became financially rich. The economy of the whole country enjoyed strong momentum of development. However, the problem also arises in the transfer of revenue from the central government to local governments. This brings about two serious problems:

(1) The core problem: the tight central government finances. The central government budget is shrinking rapidly. The proportion of the central government budget is falling sharply.

(2) Serious problems: "fiscally rich but economically overheated" places. Some local governments are financially rich and blindly pursue growth under a system that links GDP growth to official promotions. Blind investment and repeated construction eventually lead to economic overheating and excess demand, which leads to demand-driven inflation in the macro economy [5].

These two problems are very intractable, and they go hand in hand. Fiscal policy is an important means on which the state relies for macro-control. If the central government finances are strained, it will find it difficult to perform ordinary government functions. In the face of inflation and economic fluctuations, the central government is powerless. Moreover, incomplete macroeconomic reform has made the problem worse.

The fiscal and tax system is the key to the various difficulties the central government has encountered in regulating the macro-economy. To solve these difficulties, we must accelerate macroeconomic reform, including that of the fiscal and tax systems. With the central government running deficits for years, it is urgent and imperative to reform the tax sharing system. But even so, perhaps because of the lack of experience in fiscal policy and macroeconomic regulation, the central government views this issue from the perspective of solving the financial distress, rather than paying attention to the macroeconomic role brought by the reform of the tax sharing system. Until China's macroeconomic operation appeared serious problems. After 1988, the economy continued to overheat, flying cars and inflation. In 1993, the economy developed into a "red-light district", which formed the second pressure on the tax reform. Lacking the means of regulation, the central government began to pay attention to the significance of tax sharing reform for macro-control. Finally, the central government realized that the current exclusive tax system was a backward system that could not adapt to the market economy. No other country practiced it like this, and the fiscal and taxation system had reached a point where reform was necessary.

4. Allocation and Acceleration of Resources between the Central and Local Governments under the Reform of tax Sharing System

4.1 Logic of Financial Resource Allocation between the Central and Local Governments

The tax system affects the distribution of tax revenue between the central and local governments, and then affects the central and local government purchases and transfer payments. The tax revenue is limited, specifically for the central and local governments, as well as between local governments for the same amount of money to carry out government purchases, transfer payments and other functions. In turn, it will affect the allocation of resources and social equity, and the great significance of tax reform can be seen. Since ancient times, no reform at the national level is easy to promote, especially under the reform of the tax sharing system that reflects the adjustment of the fiscal relationship between the central and local governments. This is a reform that fundamentally changes the original mechanism of economic operation. It involves both a major adjustment in the relationship between the interests of the central government and local governments, and a change in the logic of macroeconomic operation from being "driven by the local authorities" to being "controlled by the central government. " It is by no means possible for a few people drafting documents to accomplish this.

4.2 Tax Sharing Negotiation Process and Practice

We can observe the progress of tax reform in western China and developed regions. The central government once sent Minister of Finance and Premier Zhu Rongji to negotiate. Local governments need to promote development. For the poor western provinces, 30% of the value added tax (VAT) that was once negotiated to be shared will be taken by the local government and 70% by the central government. But western provinces are already struggling to operate, and many require financial subsidies from the central government. At the beginning of the negotiations, the western governments suggested a 50-50 split -- because sooner or later the taxes raised would have to be returned for subsidies. But in an effort to promote reform across the country, the central government has made it clear that "subsidies are subsidies and taxes are taxes. "

The negotiation process of the western provinces was relatively smooth, and the tax sharing reform did more good than harm to the western provinces. If the central government is rich, to local subsidies will be bigger, originally the eastern coastal developed province government finances too rich, at the same time in this province is used only for investment and construction, government

purchase, excessive investment, create rich provinces due to overheating, lack of fiscal revenue and the western region, cannot rely on investment to economic growth. Under the tax sharing system, the resource allocation of the same fiscal revenue will be more reasonable and promote fairness among regions.

However, for the rich and developed eastern coastal provinces, the negotiation process is very difficult. In practice, the rich provinces were the engine of the country's economy in the early days of reform and opening-up. It is true, though, that some periods of fiscal affluence have led to "wasteful spending", wasted resources and overheating. But in general, if the tax share is too high, it will limit their growth rate and scale. And the leaders of rich provinces such as Guangdong, who outrank the finance minister, are hard to negotiate. So Zhu Rongji, the prime minister, was finally entrusted with the task. During the national negotiations, Premier Zhu Rongji and other central ministries and commissions of finance and taxation visited 17 provinces, municipalities and autonomous regions to listen to their opinions. The process can be summarized as "going east and going west, talking hard and using both the carrot and the stick".

4. Conclusion

The national or central government's ability to control the macro economy has been enhanced, and the regulation mechanism of fiscal policy has been matured. The period of tax reform is the period of rapid economic development in China. The immature, inappropriate and savage growth of the tax system makes it impossible for the country to fundamentally use the tight or expanded fiscal policy and monetary policy to regulate the economy. The tax sharing reform saved the central finance which was on the verge of bankruptcy, enhanced the macro control of China, and also made China's ability to "focus on doing more important things" get financial guarantee. Facts have proved the success of China's policy and measures to reform the tax system and strengthen and improve macro-control. The Chinese economy has not only withstood the impact of the crisis, but also bucked the trend and kicked off a new round of growth cycle in the midst of the crisis. The proper combination of fiscal and monetary policies has good macroeconomic regulation ability and is more flexible, and the performance is "high growth and low inflation" based on the macroeconomic operation mechanism [6].

In the process of gradual reform and exploration, we can see the hardships and difficulties on the road of reform, pains and surprises at various stages, as well as the undercurrents under the booming development of China's economy. The game between the central and local governments, and between the government and enterprises, although the reform is arduous and painful, it is imperative on the whole, and the results are considerable. The reform was painful. The central government's fiscal situation was once extremely difficult, and it ran deficits for years. For some years, it borrowed money from local governments, but it was usually not repaid, and it was difficult to borrow again. However, the lack of reform will bring long-term pain. In the past, an inappropriate tax system severely hampered the rapid development of our economy and society.

However, after the central government had ample financial resources, local governments faced financial difficulties. This seems to be a contradiction, or an inevitable overcorrection in the reform process. The difficulty with local finances is this: the responsibility for spending generally lies at the local level. Under the tax sharing system, local finance allocates less "money", but handles more "things" under the jurisdiction of government functions such as urban security, medical education and so on [7]. From the central government to provincial capitals, cities and counties. The upper levels of authority are big, and from top to bottom, the "money" is getting less and less, but the "work" is getting more and more. Wealth and power rise from layer to layer. Authority goes down. Faced with this situation, the central government made a compromise when negotiating with local

governments: all the land transfer revenue was reserved for local governments. From then on, local governments "held high" the banner of urbanization and led us into the "golden" age of China's real estate [8].

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