

Research Series on the Chinese Dream and China's Development Path

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Xiaonan Liu
Editor

Public Budgeting Reform in China: Theory and Practice



 Springer

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*This volume is dedicated
To
Dingjian Cai
1955–2010*

Series Preface

Since China's reform and opening began in 1978, the country has come a long way on the path of socialism with Chinese characteristics, under the leadership of the Communist Party of China. Over 30 years of reform efforts and sustained spectacular economic growth have turned China into the world's second largest economy and wrought many profound changes in the Chinese society. These historically significant developments have been garnering increasing attention from scholars, governments, and the general public alike around the world since the 1990s, when the newest wave of China studies began to gather steam. Some of the hottest topics have included the so-called China miracle, Chinese phenomenon, Chinese experience, Chinese path, and the Chinese model. Homegrown researchers have soon followed suit. Already hugely productive, this vibrant field is putting out a large number of books each year, with Social Sciences Academic Press alone having published hundreds of titles on a wide range of subjects.

Because most of these books have been written and published in Chinese, however, readership has been limited outside China – even among many who study China – for whom English is still the lingua franca. This language barrier has been an impediment to efforts by academia, business communities, and policy-makers in other countries to form a thorough understanding of contemporary China, of what is distinct about China's past and present may mean not only for her future but also for the future of the world. The need to remove such an impediment is both real and urgent, and the *Research Series on the Chinese Dream and China's Development Path* is my answer to the call.

This series features some of the most notable achievements from the last 20 years by scholars in China in a variety of research topics related to reform and opening. They include both theoretical explorations and empirical studies and cover economy, society, politics, law, culture, and ecology, the six areas in which reform and opening policies have had the deepest impact and farthest-reaching consequences for the country. Authors for the series have also tried to articulate their visions of the “Chinese dream” and how the country can realize it in these fields and beyond.

All of the editors and authors for the *Research Series on the Chinese Dream and China's Development Path* are both longtime students of reform and opening and

recognized authorities in their respective academic fields. Their credentials and expertise lend credibility to these books, each of which having been subject to a rigorous peer review process for inclusion in the series. As part of the Reform and Development Program under the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China, the series is published by Springer, a Germany-based academic publisher of international repute, and distributed overseas. I am confident that it will help fill a lacuna in studies of China in the era of reform and opening.

Xie Shouguang

Preface

A country's fiscal funds should be "collected by fair means and spent on the people," i.e., the government should clearly communicate to the taxpayers the sources of revenues and use the money to enhance public services. The people have a fundamental right to participate in deciding and supervising how and where the resources are spent. It is a reflection of the people's sovereignty as well as a constitutional right of the citizens to inquire about how and where the government spends its money.

The public budgetary process should be open and transparent, one which fully engages the public. Without direct participation of the citizens or people's congress delegates in the budgetary process, the government cannot legitimize the allocation of limited fiscal resources toward particular projects. Meantime, as long as government budgets are subject to the approval and supervision of the people and their representative institutions, government prerogatives can be constrained and checked to reduce waste and curb corruption on the one hand; and resources can be allocated more effectively to meet the expectations of national economic development and deliver public services that are better aligned with people's needs on the other.

For a long time in China, it has not been rare to find such problems as the lack of budget discipline among government official, significant existence of extra-budgetary funds (EBFs), arbitrary and inappropriate use of budgetary funds, and widespread incidence of waste and corruption. Until now, the object of public budgeting reform in China has been to strengthen the internal control of the budget by the government itself. However, the people's congress, which is the legislative body in China, has not performed its examining roles well, and civil society has very limited access to direct participation and supervision of the budget.

To establish a set of modern public budgeting institutions, the Chinese government should change its governance from administrative control to legislative administration, and thence to democratic management, and finally set up a set of democratic management systems for the budget... So, if government's internal control will not guarantee the success of administrative-control-targeted budgeting reform, we must introduce hard constraints and new legislation on budgeting and hold government accountable to the public. We must strengthen external budgeting supervision by improving the capacity of legislative

institutions to exercise budgeting examination, incorporating the budgeting process into administrative control, and implementing open and democratic public budgeting reform.¹

Hence, in 2007, the Constitutionalism Research Institute at China University of Political Science and Law and the Research Institute for Fiscal Science under the Ministry of Finance convened a meeting of influential domestic and foreign experts, scholars, and local government officials to initiate a comprehensive pilot program on public budgeting reform in Shanghai's Minhang District. The program received full cooperation and support from both the local government and the people's congress of Minhang District and was financed by the China Law Center of Yale Law School.

Following the principles of scientific, democratic, and transparent financing, Minhang District has introduced a series of measures at different stages of the budgetary process, including setting up dedicated financial accounts to ensure scientific and detailed budget preparation, public participation in the approval of budgets to guarantee the application of democratic procedures, and building a budget performance evaluation system to bring into full play the examining role of the people's congress, which is the core of the reform, in order to secure scientific oversight of budget execution. After 4 years of efforts, the reform in Minhang has produced a number of achievements:

1. Introducing results-oriented budget preparation methodologies to ensure scientific and detailed budgeting

In 2008, Minhang began to introduce results-oriented budgeting reform, which requires setting up program goals and objectives before budget preparation and then forecasting the spending of each program based on these goals and objectives. While preparing the 2009 budget, Minhang selected as a pilot study nine departments from five areas directly concerned with people's living standards, including education (9-year compulsory education), health (public health and rural basic Medicare), employment and social security, public safety (social security, food safety, and safe production), and rural income. A results-oriented budgeting framework that covers the whole budget process has been established after years of trial and improvement.

On another front, a set of scientific user-friendly budget report forms was developed to facilitate oversight by people's congress delegates and the public. Under the guidance of participating experts, Minhang drew on budgeting preparation methods and experience from home and abroad to devise tri-hierarchical budget report forms which could both meet the requirements of people's congress budget evaluation and provide useful information for people's congress delegates. This tri-hierarchical system, which consists of the comprehensive summary budget, department budget, and detailed program budget, incorporates all the fiscal revenues and budgeting expenditures into 11 sheets, with generous use of pie charts, bar charts, and graphs to clearly illustrate the budget changes

¹ Cai Dingjian: "How and Where Government Spends Its Money: Public Budgeting Reform and Citizen Participation"

and facilitate the understanding of people's congress delegates and the public. The new budget preparation methods require more comprehensive, detailed budget information, so all government departments and agencies need to start preparing their budgets as early as May each year. These budget statements must be submitted to the people's congress 2 weeks before the annual session, offering the delegates sufficient time to study the contents and key expenditures and thereby guarantee better supervision. A survey conducted at the 2009 Minhang District people's congress showed more than 80 % of the delegates were satisfied with the new budget report forms.

2. Establishing democratic procedures for budget approval by people's congress with wide public participation
 1. Budget hearings and department budget report systems were introduced to enhance the effectiveness of the initial budget review conducted by the standing committee of the people's congress, which had previously produced few substantive results. The Minhang people's congress was the first local government in China to hold budget hearings, and this practice has drawn nationwide attention. *People's Daily*, *China Youth Daily* and another 20-plus national media attended the hearing and reported on Minhang's reform practices.
 2. People's congress delegates received training to improve their capacity to examine and monitor the budget. As has been proved, trained people's congress delegates are more passionate and enthusiastic about attending the budget hearings. Moreover, all the draft budget amendment proposals in the 2010 and 2011 annual sessions of the people's congress were made by the trained delegates. Meantime, the Minhang people's congress set up an expert advisory group to guarantee scientific and professional oversight.
 3. Minhang restored the practice in which the Finance Bureau director delivers the work report at the district people's congress meeting. In addition, the Finance Bureau is required to assign staff to each delegation to hear the opinions of delegates and answer their questions. Any questions that cannot be answered at the time must be followed up and addressed by the bureau after the conclusion of the people's congress.
 4. A draft budget amendment system was introduced. The Minhang people's congress adopted "Trial Measures of Draft Budget Amendment by Minhang People's Congress" in 2008 to lay down the principles and procedures by which congress delegates must abide in proposing amendments to the government draft budget during the people's congress session.
 5. The institutional framework was strengthened. The standing committee of the Minhang people's congress adopted "Budget Examination and Supervision Measures by the Standing Committee of Minhang People's Congress" and a series of other regulations to ensure continuity of the reform.
3. Implementing budget performance evaluation system to improve supervision of budget execution

With assistance from participating experts, Minhang developed a distinctive budget evaluation system, which incorporated domestic and international experience. The system has two distinct features. One is “results-oriented,” which means the result of government expenditure is the most important factor to consider in the program indicator design and appraisal. A three-level indicator system has been developed to assess the program, including public approval rates. It covers four aspects of the program: orientation, planning, management, and objectives. It very clearly reflects the results-oriented requirements. The other feature is “covering the whole budget process.” Minhang has begun to conduct ex ante evaluation, concurrent evaluation, and ex post evaluation of spending programs to ensure efficient allocation of budgeting funds and timely discovery and rectification of problems. Such a reform has avoided the limits and defects of ex post evaluation. In addition, a variety of evaluation methods are used and combined together, including self-conducted appraisal by departments and agencies, intensive evaluation of key programs by the finance department, and ex post evaluation by an independent organization. In Minhang’s reform, the budget performance information will be an important reference. Those programs with excellent performance will be encouraged and supported by the government, while poorly performed programs will receive little or no funds.

The support from the Party committee and endeavors of local people’s congress and government all contributed to Minhang District’s reform program. Yet, Minhang would not have reaped such achievements without the painstaking efforts of the public budgeting reform panel. Professor Cai Dingjian, late director of the Constitutionalism Research Institute at China University of Political Science and Law, was the architect of and a key driving force behind the budgeting reform initiative in Minhang. Between 2007 and 2010, the last 4 years of his life, Prof. Cai and his team shuttled back and forth between Beijing and Shanghai, to guide Minhang’s public budgeting reform.

Minhang District has scored notable achievements in public budgeting reform, which is worthy of recognition. However, Prof. Cai Dingjian did not confine himself to that district alone; he looked far beyond. As he pointed out, “public finance is the foundation of modern democratic government. Without open and transparent public finance, no government would be dedicated to serving the people, the widening gap between rich and poor would surely result in injustice, and institutional corruption would inevitably happen. Establishing the public finance system is a pressing task for constructing a law-based government.”²

Prof. Cai Dingjian and his reform team hoped Minhang’s experience with budgeting reform could be promoted nationwide and more pilot projects could be further undertaken at municipal or district government levels, to establish a general model of public budgeting preparation and set up effective procedures to demonstrate the role of people’s congresses. It was also a wish of Prof. Cai to publish a

²Cai Dingjian, “The Path and Tools of Public Budgeting Reform,” in *China Reform*, 2007(6)

book which recorded the reform course and experience of Minhang District and introduce budgetary practices in other Chinese local governments.

This volume consists of three parts. The first part presents theoretical explorations of public financing and budgeting reform in China, from which we can see the wisdom and determination of Chinese scholars in driving forward fiscal and budgeting reform. In the second part, we expound on the thoughts and practices of public budgeting reform in Shanghai's Minhang District, to capture a panorama as well as a close-up of the achievements in the leading role of the local people's congress, public participatory budgeting, performance evaluation of the financial system, and other aspects. More regional practices are introduced in the third part, including characteristics and experiences in public budgeting reform in Jiaozuo, Wenling, and Nanhai.

Here, upon the publication of this English version of the book, we update parts of the content and statistical data by incorporating new achievements and developments in financing and budgeting reform. I am grateful to Dr. Wang Wanli and two master's degree candidates, Ma Yuming and Ji Jingping, who are all from the Constitutionalism Research Institute at China University of Political Science and Law, for their assistance during the editing process. I would also like to thank colleagues from Social Sciences Academic Press for their excellent editorial work.

Beijing, China
February, 2014

Xiaonan Liu

Acknowledgments

After a relatively short gestation period, the *Research Series on the Chinese Dream and China's Development Path* has started to bear fruits. We have, first and foremost, the books' authors and editors to thank for making this possible. And it was the hard work by many people at Social Sciences Academic Press and Springer, the two collaborating publishers, that made it a reality. We are deeply grateful to all of them.

Mr. Xie Shouguang, president of Social Sciences Academic Press (SSAP), is the mastermind behind the project. In addition to defining the key missions to be accomplished by it and setting down the basic parameters for the project's execution, as the work has unfolded, Mr. Xie has provided critical input pertaining to its every aspect and at every step of the way. Thanks to the deft coordination by Ms. Li Yanling, all the constantly moving parts of the project, especially those on the SSAP side, are securely held together and as well synchronized as is feasible for a project of this scale. Ms. Gao Jing, unfailingly diligent and meticulous, makes sure every aspect of each Chinese manuscript meets the highest standards for both publishers, something of critical importance to all subsequent steps in the publishing process. The high-quality if also at times stylistically as well as technically challenging scholarly writing in Chinese which has turned into decent, readable English that readers see on these pages is largely thanks to Ms. Liang Fan, who oversees translator recruitment and translation quality control.

Ten other members of the SSAP staff have been intimately involved, primarily in the capacity of in-house editor, in the preparation of the Chinese manuscripts. It is time-consuming work that requires attention to details, and each of them has done this and is continuing to do this with superb skills. They are, in alphabetical order, Mr. Cai Jihui, Ms. Liu Xiaojun, Mr. Ren Wenwu, Ms. Shi Xiaolin, Ms. Song Yuehua, Mr. Tong Genxing, Ms. Wu Dan, Ms. Yao Dongmei, Ms. Yun Wei, and Ms. Zhou Qiong. In addition, Xie Shouguang and Li Yanling have also taken part in this work.

Mr. Tong Genxing is the SSAP in-house editor for the current volume.

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