

# Constructing A Scientific and Efficient Special Transfer Payment System

From the perspective of division of financial authority and expenditure responsibility

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**Abstract:** The reasonable division of power and expenditure responsibility between central and local governments is the basis of establishing a scientific and efficient special transfer payment system, and also the precondition of establishing a reasonable financial relationship between central and local governments and promoting the coordinated development of regional economy. From the perspective of reasonable division of central and local financial powers and expenditure responsibilities, this paper deeply analyses the problems existing in the current stage of special transfer payment projects, and puts forward suggestions on how to construct a scientific and efficient special transfer payment system from three aspects.

**Keywords:** Special transfer payment; Fiscal authority; Expenditure responsibility

## 1. Introduction

Special transfer payment refers to the budgetary funds that the central government gives to local governments free of charge in order to achieve specific economic and social development goals. At this stage, the tax system reform is not yet perfect, the division of central and local powers and expenditure responsibilities is still unreasonable and irregular, the low proportion of local government revenue and expenditure responsibility, leading to the central government's long-term existence of large-scale special transfer payments, scattered projects, inadequate supervision of funds and other issues [1]. Therefore, from the perspective of central and local financial powers and expenditure responsibilities, this paper analyses the problems existing in the current stage of China's special transfer payment projects, and puts forward suggestions on how to construct a scientific and efficient special transfer payment system from three aspects.

## 2. The Concept and Development Status of Special Transfer Payment

### 2.1. Definition of the concept of special transfer payment

Transfer payment is mainly divided into special transfer payment and general transfer payment. The Central Government for Local Special Transfer Payments refers to the budgetary funds that the Central Government grants to local governments free of charge in order to achieve specific economic and social development goals, and which are allocated by the governments receiving trans-

fer payments according to the purposes prescribed by the Central Government [2].

### 2.2. Current situation of special transfer payment in China

#### 2.2.1. The scale of special transfer payment in China

According to the relevant data of Local Finance Operation Analysis, Figure 1 shows the scale and proportion of transfer payments from the central government to local governments from 2006 to 2017.

From Figure 1, it can be concluded that the overall scale of special transfer payments from the central government to local governments is increasing year by year. The scale of special transfer payment basically remained stable, and even declined in recent years. At the same time, the proportion of special transfer payment in the total transfer payment has gradually declined. In addition to a brief increase in 2007-2008 (11th Five-Year Plan period), the proportion of special transfer payments has gradually decreased from 52.5% in 2008 to 38.4% in 2017. In terms of scale and proportion, the central government is controlling and reducing the proportion of special transfer payments, and gradually dividing some funds into general transfer payments.

#### 2.2.2. Structural change of special transfer payment in China

The structure of special transfer payment projects in China is being gradually optimized, and the focus of investment in special transfer payment funds is gradually shifting from economic construction to people's live-

lihood. The setting of expenditure subjects before the reform fully shows that the focus of state financial investment before 2006 is mainly on economic construction [3]. According to statistics, with the continuous maturity of China's economic development and construction, the proportion of special transfer payment funds in the field of economic construction has gradually declined. After the reform in 2006, the classification of expenditure function subjects has changed greatly. The setting of expenditure subjects before and after the re-

form also shows that people's livelihood has gradually become the focus of financial expenditure, improving people's livelihood, ensuring the equalization of basic public services, and promoting the coordinated development of regional economy has become the main goal of government transfer payments. At the same time, the structure of special transfer payment has been gradually optimized, and the basic livelihood areas of investment are inclined.

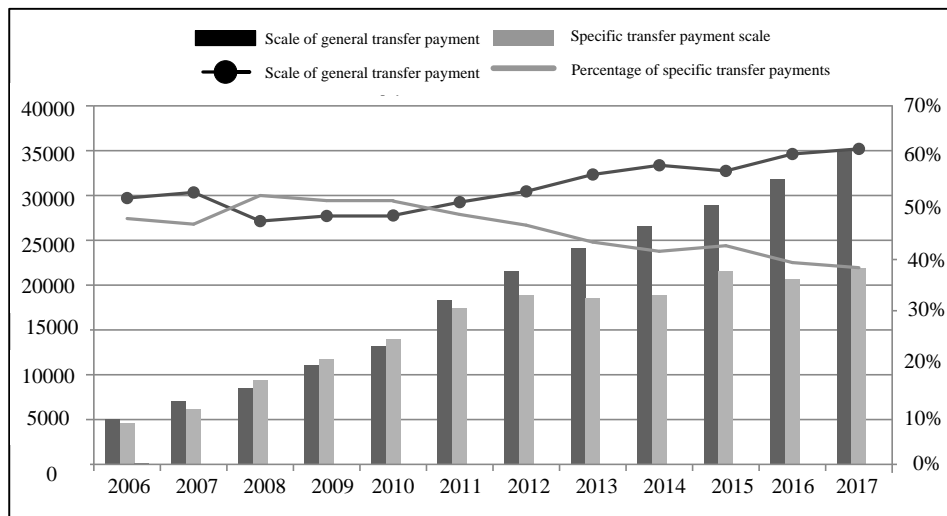


Figure 1. Overall situation of central transfer payments to local governments from 2006 to 2017

### 3. "Contradiction" between Central and Local Financial Revenue and Division of Responsibility

#### 3.1. The proportion of central fiscal revenue is still high

After the tax-sharing system reform, financial power quickly converged to the central government, and the proportion of central fiscal revenue in total fiscal revenue rose rapidly. In the first year of the reform, the proportion increased rapidly from 22% to 56%, even more than 50%. Since then, it has gradually stabilized to about half, balancing with local fiscal revenue. However, due to the lack of fixed tax sources, the unclear boundaries between central tax, shared tax and local tax, and the difficulty in determining the subject of tax collection and management, the local governments' financial and tax revenue difficulties often occur [4].

#### 3.2. Local fiscal expenditure has heavy responsibility and great pressure

At present, the expenditure responsibility of local governments does not match the proportion of income available. Since the reform of tax-sharing system, the

proportion of fiscal revenue of the central government has risen rapidly, reaching about half of the total fiscal revenue, while the local fiscal revenue has further decreased after the "business-to-business" reform. In terms of expenditure, the relevant data show that local fiscal expenditure even accounts for about 85% of the total national fiscal expenditure, with a relatively high share [5]. Because of the asymmetry of information, there are also unreasonable and non-standard phenomena in the decision-making of the division of powers and expenditure responsibilities between provincial and subordinate governments, resulting in the transfer of responsibilities among governments, the promulgation of policies by the central government, and the local responsibility of "paying the bill". Local government has a low proportion of income and heavy responsibility for expenditure, which is more likely to cause financial difficulties, which is not conducive to the coordinated and stable development of local economy.

### 4. Current Problems of Special Transfer Payment in China

#### 4.1. Special transfer payment items are scattered

Special transfer payment projects are scattered and chaotic, the difficulty of government overall planning is increased, and the efficiency of capital investment and supervision is low. As a result, a large number of special transfer payment funds allocated for specific purposes and construction projects to achieve specific economic goals have not played their due role, the problem has not been fundamentally solved, and the financial burden has been further increased, which leads to the vague concept and unclear definition of the objects of the funds, and the confusion when they are naturally distributed, which is contrary to the establishment of these transfer payments at that time. The original intention of the project.

In view of the small and scattered status of special transfer payment funds, the central and provincial government financial departments also put forward that we should pay attention to the integration and clearance of special transfer payment funds, increase the integration of special funds, and improve the efficiency of the use of funds. But at the same time, there are still many problems: some of the project hierarchy system is complex, there are large projects and small projects, and the goals or functions and implementation methods of small projects are similar, there is still the need for further integration; at the same time, most dispersed special funds are under the jurisdiction of different departments and units, and have specific uses, so it is difficult to integrate and clean up directly. The degree is large.

#### **4.2. Excessive scale of special transfer payment restricts local autonomy**

Relevant data show that there are a large number of funds with specific purposes in general transfer payment, including education, social security and employment, general public services, health care and other fields, which are transferred from special transfer payment to general transfer payment projects, as well as the original conditional transfer in general transfer payment. Transfer payment. These "special" transfer payments, which are essentially limited in purpose, actually account for 70% of the total transfer payments of the central government, indicating that only about 30% of the funds can be freely disposed of by the local government, which greatly restricts the local financial freedom. It is difficult for local governments at all levels to give full play to their financial autonomy, coordinate financial arrangements, and provide public services coordinated with regional development according to local conditions, so as to achieve the effect of balancing regional financial resources with central transfer payments.

#### **4.3. Lack of financial supervision and poor performance**

From the perspective of declaring funds, as the special transfer payment funds are applied for funds by various departments in different regions according to the actual situation and specific project construction needs, there is certain discretion space. Taking advantage of the information asymmetry between the central and local governments, some local and enterprises who are good at public relations and can "make up stories" can often drill the gap of policies and get more special funds allocation. Some local enterprises will not "make up stories" and have no suitable channels to "go back door", often nothing can be obtained. The unreasonable distribution is unavoidable, which seriously endangers the market. Competition and the fairness of coordinated development of different regions.

From the point of view of fund supervision, the transfer payment funds allocated by the central government to local governments every year are huge and complicated. The improvement of payment system provides reference and suggestions for improvement. The lack of supervision system, performance evaluation, accountability and reward and punishment mechanism makes the budget binding force of special transfer payment funds weak, project management difficult and project execution performance poor. At the same time, the cost of violation is low and corruption is easy to breed.

#### **4.4. Deviation from the reform of the division of financial authority and expenditure responsibility**

Unlike general transfer payment, which aims at achieving regional financial balance, special transfer payment is a subsidy fund allocated by the central government to local governments in order to achieve specific macroeconomic and policy objectives, and used by local governments according to specified purposes and scales. Therefore, it is closely related to the responsibilities of local governments at all levels. At present, the reform of tax distribution system is not perfect, and there are still many unreasonable and non-standard areas in the division of fiscal powers and expenditure responsibilities.

### **5. Study on the Countermeasure of Perfecting the System of Special Transfer Payment**

#### **5.1. Define the boundaries between government and market**

In order to make a reasonable division of governmental powers and expenditure responsibilities, we must first define the boundaries between government and market. With the reform of tax distribution system and the continuous improvement of socialist market economy system, the government should clarify its own functions, gradually reduce market intervention, and focus on making up for market failure, focusing on the provision

of basic public services and livelihood security, so as to avoid financial offside, dislocation and vacancy.

The government should resolutely cancel the special transfer payment projects in the field of full market competition and non-conformity with the national macroeconomic policy, and the market should give full play to its regulatory function to maintain balance through the competition mechanism. As for the competitive field special projects that need to be supported by the macro-policies issued in a specific period, we should strictly examine them when setting up projects, establish a perfect supervision system, withdraw in time, and maximize the efficiency of the use of funds. In addition, the government should actively play the role of financial leverage and actively support the development of innovation-driven enterprises, but it can reduce the investment of special funds and give support to enterprises through preferential policies such as tax reduction and exemption.

### 5.2. Rationally dividing the powers and expenditure responsibilities of central and local governments

The basis of perfecting the special transfer payment system is to rationally divide the powers and expenditure responsibilities of central and local governments, and to establish a system suitable for the powers and expenditure responsibilities by means of legalization and standardization. Generally speaking, the central government mainly undertakes the necessary expenditure of coordinating regional economic development and implementing national macro-control, safeguarding national security and the normal operation of national core institutions, and the local government is mainly responsible for coordinating and arranging the basic social and public affairs of the region, as well as the matters entrusted by the central and local governments in their joint expenditure responsibilities.

According to the incompatibility between the central and local income and expenditure responsibilities, the central government can properly allocate the powers and expenditure responsibilities to the central government, and transfer some jurisdictions of social and public utilities closely related to the protection of people's livelihood to the central government: for example, the gradual realization of national overall planning of basic pension insurance can not only alleviate the expenditure pressure of local finance, but also promote the free flow of labor and the coordinated development of regional economy. The financial power of education can also be gradually transferred to the central government. Because students in underdeveloped areas tend to develop in developed areas after graduation, and the unfair distribution of educational resources is aggravated, the central government can increase its intervention efforts appropriately to guarantee the relative fairness of

students' right to education in various regions by arranging funds as a whole. The central government should appropriately increase the proportion of responsibility for affairs and expenditure between the central and local governments, reduce the entrustment to local governments, cancel the corresponding special transfer payment projects, reduce the financial burden of local governments, and at the same time, be more conducive to the overall management of funds. In addition, at different stages of each country's economic and social development, due to the different objectives of development and reform, the division of intergovernmental powers and expenditure responsibilities will also be different. Therefore, according to the actual situation, the scope of government expenditure responsibility at different levels should be dynamically adjusted and clearly stipulated through standardized procedures in order to maintain relative stability over a period of time, and the scale and structure of special transfer payment should be adjusted in time according to the division of expenditure responsibility, so as to prevent the occurrence of offside, vacancy and dislocation of government finance.

### 5.3. Perfecting the supervision system of special transfer payment funds

The long-term scale of special transfer payment is too large, the project is scattered and disorderly, and it is difficult for the government to co-ordinate funds, which leads to the low efficiency of the use of special transfer payment funds. Therefore, we should continue to improve the supervision system of funds for special transfer payments, and follow the principle of transparency and openness from budget preparation and approval to the source. The construction of performance management system of payment funds not only compares the budget content with the implementation results, but also pays attention to whether the special transfer payment achieves the established policy objectives, whether the local government achieves fiscal balance through the transfer payment, and promotes the healthy development of regional economy, so as to find out the problems in time, arrange the special transfer payment budget funds rationally next year, and adjust the central and local governments. The proportion of party power and expenditure responsibility provides effective reference.

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