

CHINA PERSPECTIVES

China's Fiscal Policy

Discretionary Approaches
and Operation Design

Gao Peiyong



China's Fiscal Policy

As an important macroeconomic variant, the fiscal revenue and expenditure can influence the operation of the whole economic and social activities by changing the existing GDP distribution pattern, affecting the consumption and investment of enterprises and people, etc. Thus, fiscal policy has always been a primary instrument of macroeconomic regulation.

This book imports fiscal policy into the framework of macroeconomic analysis and through the analysis of the former, it unfolds the major changes of China's macroeconomic operation in the past 20 years. This book begins with China's rejoining the General Agreement on Tariffs and Trade (GATT) in the 1990s, which enabled China to deepen the reform and join the international market finally. It elaborates on the challenges China's taxation was confronted with after rejoining the GATT, including the decrease of tax revenue and higher requirements for tax reform. Then this book combs China's fiscal policies under various economic situations chronologically – tax policy against the background of deflation, proactive fiscal policy at the beginning of 21st century, macroeconomic policy options facing a complicated and volatile economy, etc. How to deal with the “new normal” of development China's economy has entered is also addressed. This book will appeal to scholars and students of economics and China's economic studies.

Gao Peiyong is the director of Institute of Economics, Chinese Academy of Social Sciences. His main research interests include theoretic research, policy analysis and institution design in the field of public finance and taxation.

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Foreword for the Chinese edition

The Presidium of CASS (Chinese Academy of Social Sciences) Academic Division organizes the publication of Collections of the Committee Members of CASS Academic Division in order to uncover their findings of special researches on specific subjects and professions, as well as exhibit their dynamic research tracks and academic understandings after a long-term focus on a specific profession or subject. For myself, this publication is not just about the committee members of CASS academic division, but is a good opportunity to review what I have done over my scholarly research, organize my thoughts and improve my research level and quality.

After sorting out and editing my representative papers published in recent years, I locked on two clues and composed two corresponding symposiums, *Fiscal and Tax Reforms after 1994* and *Fiscal Policies in the Macroeconomic Analysis*.

The *Fiscal Policies in the Macroeconomic Analysis* present here centers on the clue of fiscal policies decided in macroeconomic situation. It consists of my representative papers on macroeconomic climate and fiscal policies published since the 1990s.

To pick up such a research angle, I have my own reasons. Starting from my undergraduate, graduate and doctoral studies, then my teaching in Tianjin University of Finance and Economics and Renmin University of China, and then my research work in CASS, I have never left the specialty of finance. Of some sort, I'm an academic with professional training in finance and long anchored in finance. After years of academic edification, I've shaped the following perceptions.

The comprehensiveness is a unique quality for which finance distinguishes itself from any other economic categories. As the fiscal revenue and expenditure provides the base for all government activities, and also links governments, enterprises and people most directly, it can cover all government functions, departments and activities and extend to all enterprises and people, all consumption and investment segments and all economic and social sectors. It means that the research on finance cannot be only about finance, but be done out of its professional limit and from a wider view.

Finance is an academic discipline of pragmatism, even for more practical purposes than any other economic discipline. All arrangements related to fiscal

revenue and expenditure always get down to business by directly changing the existing interest groups, improving people's well-being, affecting economic and social development and ensuring an everlasting political stability of the state. To this end, finance has never stood alone, but is closely associated with the fervent reality throughout its development. It has never been content with theoretical ideas but emphasized the practical application of ideas by acting on them to solve realistic problems throughout its discipline building. It means research on finance cannot be only about academic theories, but perceive practices out of theoretical limit.

Basically the fiscal revenue and expenditure activities are always taken as an aggregate included into the list of the general equilibrium elements, even in the planned economy age. In the market economy time, when people are more aware of the universally true proposition that the total supply and demand are in balance, not only the fiscal revenue and expenditure becomes a more important weight in the macroeconomic equilibrium, but the macroeconomic analysis is more liable to host the discipline of finance. We should base ourselves on the macroeconomy, discuss financial issues from the macro perspective and study the financial resource allocation by macroeconomic analysis in order to obtain a sustainable and healthy development of the national economy. These are increasingly becoming the dominant orientation of the discipline development and building of finance. It means the research on finance cannot be done without macroeconomic awareness and thoughts, but must break the limit of general financial research and enter into the new era of macroeconomic analysis.

As a very important macroeconomic variant in the command of governments, fiscal revenue and expenditure can change the existing GDP distribution pattern, profoundly affecting the consumption and investment of enterprises and people, and the total supply and demand of the society, and even influencing the operation of whole economic and social activities; therefore, fiscal policy is always a primary measure of macroeconomic control under the framework of macroeconomic analysis. Rare buffer zones are left for the decisions and overall arrangements regarding fiscal policies, as they determine the success of macroeconomic policies. In some sense, the analysis of fiscal policies among macroeconomic policies is the priority among priorities in the scope of finance. It means the research on finance cannot but be done by specialized and professional economists who are known for truly excellent learning, pursuit of practical problem solving and thinking outside the box of general academics.

Given the aforementioned, I've focused on and devoted myself to research on the macroeconomy and fiscal policy for years. The dominant aim of my academic studies is to import the fiscal policy into the framework of macroeconomic analysis, and based on that, keep updated the macroeconomic ups and downs, systematically look into the implementation effects of macroeconomic policies, outline how the fiscal policy is operated and put forward the fiscal policy arrangement plans in appropriate time.

All papers collected in this symposium are compiled in publication order. They unfold all major changes of China's macroeconomy after the 1990s and the evolutionary progress of fiscal policy decision-making, the main measure

of macroeconomic control and basically reflect my thoughts about fiscal policy among the macroeconomic decisions.

I would like to take this opportunity to express my gratitude to the leaders and editors of China Social Sciences Press, whose great support and help give rise to the publication of this book and I would like, also to ask for advices from peers and readers.

Gao Peiyong
July 10, 2013

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