

Reform of Budget Performance Management and Local Financial Pressure in China

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Abstract: As the situation of tight fiscal balance among local governments in China continues to intensify, research on how to release local fiscal pressure has attracted much attention. At the national level, the reform of budget performance management has significantly reduced the financial pressure on local governments; Mechanism analysis shows that reform can alleviate local fiscal pressure through two channels: improving fiscal expenditure performance and optimizing regional institutional environment; The analysis of regional heterogeneity shows that the reform only reduced the local fiscal pressure in the eastern region, while the fiscal pressure in non eastern regions did not decrease but instead increased. Finally, this article proposes suggestions for addressing the issues of unbalanced and insufficient reforms, which provide policy insights for China's subsequent efforts to improve the quality and efficiency of budget performance management.

Keywords: Local Fiscal Pressure; Budget Performance Management Reform; Regional Heterogeneity.

1. Introduction

As an important component of modern budget management system, budget performance management system can constrain local government's fiscal revenue and expenditure behavior at the institutional level, strengthen budget performance management, and promote the improvement and efficiency of budget performance management. Since the reform of the tax sharing system in 1994, China's fiscal and taxation system has undergone major changes such as the reform of the income tax revenue sharing system, the comprehensive cancellation of agricultural taxes, and structural tax reductions. The financial foundation of local governments has been affected to a certain extent, but the fiscal powers and expenditure responsibilities between the central and local governments have not been clearly divided. The relationship between the central and local governments has shown an evolutionary trend of "fiscal powers being handed over layer by layer and administrative powers being delegated layer by layer". Local government fiscal expenditure responsibilities are relatively large, and local government finances are caught in a dilemma of weak income growth and hopeless expenditure reduction, which is not conducive to promoting high-quality development and high-level safe interaction, effectively enhancing economic vitality, and preventing and resolving economic risks. Actively carrying out organizational innovation and institutional reform has become a necessary response strategy to reduce local financial pressure and mitigate local financial risks. China is accelerating the reform of local government budget performance management system and strengthening the deep integration of budget and performance management. The comprehensive implementation of budget performance management is an important part of deepening the reform of the fiscal and taxation system and establishing a modern fiscal system. Solving the prominent problems in budget performance management can help optimize the allocation of fiscal resources, promote the concentration and efficiency of fiscal funds, improve the quality of public services, and enhance fiscal sustainability.

At present, research on budget performance management reform in China mainly focuses on the reform and development process, influencing factors and optimization paths of budget performance management, as well as case studies of departments or projects (Zheng Yong, 2023; Ma Caichen et al., 2023; Li Jiapeng et al., 2022). Some studies have explored the policy effects of budget performance management reform, but mainly focused on the national governance system and governance capacity, such as government administrative performance (Xiao Peng et al., 2023), government governance efficiency (Yu Haifeng et al., 2021), government administrative management costs (Zhang Zenglian et al., 2021), and government fiscal expenditures (Liu Boyuan et al., 2019; Sun Kejing et al., 2021). From the perspective of the original intention of institutional design, the implementation of budget performance management system is to fundamentally constrain the use of fiscal funds and reduce fiscal pressure. However, whether the institutional practice has achieved the original intention, it is necessary to systematically analyze the channels through which budget performance management releases local fiscal pressure, whether there is regional heterogeneity in reform effects, and how to evaluate and improve the dynamic effects of reform policies.

2. Theoretical Analysis

From the perspective of annual budget balance, local government financial pressure is the fiscal gap caused by the imbalance between government budget revenue and expenditure (Qi Yu et al., 2023). In the short term, fiscal pressure mainly manifests as insufficient liquidity of local fiscal funds, and the inability to timely supply public goods and services; In the long run, it manifests as the inability of local governments to fulfill their promised fiscal expenditures, exhibiting the characteristic of "fiscal fatigue" (Zhu Jun, 2019). From the direct reasons for the financial pressure on local governments, on the one hand, with the comprehensive promotion of structural tax reduction and fee reduction policies, the growth rate of local government tax revenue has

shown a significant downward trend; On the other hand, constrained by the goals of economic and social development, local government fiscal expenditures maintain a certain level of rigid evolution characteristics (Xu Chao, 2020), and local governments face a dilemma of weak income growth and persistent expenditure rigidity. In this context, budget performance management, as a results oriented management model that emphasizes the improvement of fund quality and efficiency, as well as the strengthening of financial discipline, aims to reduce local fiscal pressure through the following two channels:

2.1. Improve Fiscal Expenditure Performance

As a budget management model guided by expenditure results and emphasizing cost-effectiveness, the budget performance management system can establish the work goal of "spending money effectively" from the aspects of performance management goal setting, evaluation content system, and evaluation work system, highlight the pre performance evaluation of budget decision-making and preparation, accurately position performance goals, and focus on improving fiscal expenditure performance. From this, it can be seen that the performance evaluation of fiscal expenditure essentially includes two core contents: the efficiency of the use of fiscal funds and the efficiency of the allocation of fiscal resources. On the one hand, in response to major projects and key projects planned and introduced by local governments, experts are organized to conduct pre evaluation during the project initiation and construction phase, strengthen performance target constraints, and construct a batch of high-yield, low-energy consumption projects that match the regional industrial development foundation to improve the efficiency of fiscal fund utilization; On the other hand, conducting a comprehensive audit of the project implementation process and results, implementing performance target responsibility management, guiding effective investment of financial resources to the maximum extent, avoiding blind decision-making and unreasonable investment from a resource oriented perspective, optimizing budget target setting, and improving the efficiency of financial resource allocation. O'Flynn's (2007) study found that results oriented performance evaluation of fiscal resources can help correct the erroneous perception of local governments that prioritize investment over management and expenditure over performance, improve the soft budget constraint state of public sector expenditure, and achieve efficient utilization of fiscal funds and innovative management methods. Lars (2008) further pointed out that budget performance reform emphasizing cost-effectiveness not only improves the quality of financial expenditure for departments and projects in the short term, but also provides strategic guidance for the preparation of medium - and long-term budget plans. In addition, Jakobsen and Pallesen (2017) found in their case studies of OECD countries that a strong dynamic performance monitoring system and highly transparent public expenditure performance information significantly improved the quality of public goods and services, reduced government administrative management costs, and reduced the scale of fiscal fund utilization.

In summary, the reform of budget performance management has improved the performance of local government fiscal expenditures from two aspects: the efficiency of fiscal resource allocation and the effectiveness of fiscal fund utilization. This means that, while maintaining

the same level of fiscal expenditure, local governments can provide a greater quantity of public goods and higher quality public services. It also means that local governments allocate less fiscal expenditure to provide system scale public goods and services. Therefore, the improvement of fiscal expenditure performance helps to exert the "tightening effect" of funds on the fiscal "expenditure" end and reduce the financial pressure on local governments.

2.2. Optimize the Regional Institutional Environment

A complete institutional environment can effectively enhance the transparency of government affairs, reduce rent-seeking behavior and inaction of government officials. Comprehensively assisting local governments in optimizing the institutional environment is an essential aspect of budget performance management reform. Firstly, the reform of budget performance management requires that the entire process of budget preparation, implementation, and feedback be made public in accordance with the law and subject to supervision from all sectors of society. This effectively solves the problem of information asymmetry between the government and taxpayers, as well as between the finance department and the budget department, improves the level of transparency of fiscal funds, and enhances the credibility of local governments. Secondly, the budget performance evaluation feedback mechanism links the amount of budget funds that can be applied for the next year with the performance evaluation results of the current year, aiming to solve problems such as chaotic management, unclear fund allocation, and low efficiency in the allocation of budget funds at the grassroots government level. This forces the government to optimize organizational structure, improve work efficiency, comply with institutional arrangements, thereby enhancing government execution and optimizing the regional institutional environment. It can be seen that a good institutional environment can effectively constrain the budgeting and execution behavior of local governments, thereby alleviating local financial pressure. A relatively poor institutional environment is more likely to induce biased allocation of local government public expenditure structure. Therefore, substantial promotion of budget performance management reform can optimize the regional institutional environment, further improve the structure of fiscal expenditure, stimulate innovation vitality and increase labor productivity, and promote high-quality economic development. In addition, a good institutional environment can reduce market-oriented transaction costs, managerial transaction costs, and political transaction costs, which helps to reduce the uncertainty and risks of corporate investment and attract corporate investment to settle in.

3. Regional Heterogeneity Analysis

From a regional perspective, the impact of budget performance management reform on local fiscal pressure varies significantly, and even presents opposite analytical conclusions. The policy variable coefficient value of budget performance management reform in 80 prefecture level cities in the eastern region is -0.258, which is significant at the 1% level. Compared with the regression coefficient value of -0.140 of the national sample, the achievements of budget performance management reform in the eastern region are greater, which means that the effect of alleviating local

financial pressure through budget performance management reform in the eastern region is higher than the national average level. The regression results of the reform effects in the central and western regions show that the regression coefficients of policy variables are positive, with values of 0.059 and 0.101, respectively. This indicates that the budget performance management reform not only did not reduce the financial pressure on local governments in the central and western regions, but also exacerbated the "tight balance" state of finance, and the upward effect of financial pressure brought about by the reform is more prominent in the western region. The positive regression coefficient values of policy variables in the central and western regions also indirectly prove that the absolute value of the regression coefficient in the eastern region is higher than that at the national level, which is logical. Based on the economic and social development gap between regions, heterogeneity analysis was conducted by dividing the north and south according to geographical boundaries. The coefficient value of budget performance management reform in the southern region was -0.247, which was significant at the 1% level. The regression coefficient value of policy variables in the northern region was 0.066, which was significant at the 5% level. The positive sign of the coefficient of the core explanatory variable indicates that budget performance management reform not only did not reduce the financial pressure on local governments in the northern region, but also exacerbated the state of tight fiscal balance. The grouping results are similar to those in the eastern and non eastern regions.

Why is the policy effect of budget performance management reform in the central and western regions completely opposite to that in the eastern region and at the national level, not only failing to alleviate but also exacerbating the financial pressure on local governments? This article believes that there may be two reasons: firstly, starting from the fact that budget performance management reform is gradually advancing nationwide, coastal provinces in the eastern region took the lead in pilot work. For example, Guangdong, Zhejiang, Jiangsu and other provinces comprehensively implemented budget performance management reform around 2005, accumulating a lot of reform experience. The budget performance management system has become more mature, and compared with other provinces and cities in non eastern regions, the budget performance management system is more systematic and efficient, which can better play the role of reform in improving the efficiency of financial fund utilization and resource allocation. At the same time, the reform of the fiscal system also emphasizes the input-output principle. During the period from 2013 to 2017, various provinces and cities in the central and western regions were still in the initial stage of investment and required a large amount of human and financial resources support. However, as of 2021, the policy evaluation in this article is based on the fact that the input cost of the policy is greater than the output benefit. The relief effect of fiscal pressure brought about by the reform is covered by a large amount of cost investment, resulting in a situation where fiscal pressure is not decreasing but increasing. The second is the effectiveness of budget performance management reform, which is highly related to the effective implementation and execution of local governments. The economic development level, marketization level, and legal environment in the eastern region are objectively better than those in non eastern regions,

which facilitates deeper promotion of performance reform. On the contrary, the goals of economic and social development in the central and western regions are constrained, and local government reform is under great pressure. The comprehensive implementation of budget performance management reform is subject to certain constraints and obstacles, which affects the effectiveness of budget performance management.

4. Conclusion

Based on the research findings, this article proposes the following policy implications:

Firstly, effectively improve the performance of fiscal expenditure and strengthen the concept of performance management. Improving fiscal expenditure performance is an important channel for budget performance management to reduce local financial pressure. How to further improve the allocation, use, and supervision of fiscal funds, so that limited fiscal funds can exert greater economic and social benefits, is the top priority of budget performance management work in the future. Firstly, it is necessary to deepen the concept of budget performance management, correct the rigid mode of "heavy investment, light output" in local government work, and promote the establishment of a performance responsibility awareness of "accountability for spending money and accountability for inefficiency" by local governments. Secondly, it is necessary to implement the principle of cost-effectiveness, strengthen pre performance evaluation, and clarify budget performance goals and standards. Avoid blind decision-making and unreasonable investment from the source, improve the scientific and accurate allocation of financial resources, and use limited funds wisely. Finally, strengthening digital empowerment, breaking down information barriers, and establishing data sharing mechanisms create conditions for improving the quality and efficiency of budget performance management.

Secondly, actively promote the reform of budget performance management. It is necessary to extensively carry out budget performance management in the central and western regions to comprehensively improve the efficiency of fiscal fund utilization and further reduce local financial pressure. On the one hand, provincial-level governments with sufficient financial resources can coordinate the establishment of a special fund to assist various cities and counties under their jurisdiction in carrying out budget performance management reforms. Based on the specific situation of each city and county, appropriate funds can be arranged annually to support their performance management and evaluation work, gradually improving the overall quality of project and departmental performance management work, and smoothly overcoming various difficulties faced in the early stages of reform; On the other hand, the financial departments of various provinces and cities should learn from cities in the eastern region that have achieved significant results in budget performance management reform, summarize mature experiences and practices that can be promoted and replicated, and refine and elevate them into institutional documents. And through channels such as inter regional exchanges, on-the-job training, and research, combined with the characteristics of various regions and departments, formulate performance indicators and standard systems for different industries and fields, and consolidate the foundation of budget performance management work.

Thirdly, establish a comprehensive performance

supervision mechanism throughout the entire process, while strengthening government auditing and budget performance self-assessment, and introducing third-party evaluation agencies to improve public participation in social supervision mechanisms. Promote budget transparency, strengthen constraints on fiscal revenue and expenditure behaviors that deviate from established targets, reasonably arrange key construction projects of local governments, compress non rigid expenditures, effectively apply fiscal resources to improve people's livelihoods and support the development of market entities, reflect the real needs of local citizens, and enhance the livelihood orientation of budget expenditures.

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