China's Fiscal Policy in the Past Seven Decades: Characteristics, Experience and Prospects

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The paper reviews the fiscal policies adopted by China in the past 70 years, summarizes their characteristics at different stages and looks into the future fiscal policy options for China. The fiscal policy history since the founding of the People's Republic of China can be divided into four stages. Stage 1: 1949—1952, the market-oriented fiscal policy aiming to restore the national economy; Stage 2: 1953—1978, the planned fiscal policy; Stage 3: 1978—2012, the fiscal policy accommodating the needs of economic transformation; and Stage 4: 2012—present, the fiscal policy accommodating the needs of the new era. A look at the above fiscal policy history draws the following conclusions. (1) The goal of the fiscal policy should be set based on a correct understanding of the role of the state; (2). For the fiscal policy to work, it must respect the fiscal law; (3) The fiscal policy must aim higher than the goal of macroeconomic stability and provide guarantees for industrialization and modernization; (4) The government should understand fiscal deficits while proactively guarding against fiscal risks; (5) The implementation of the fiscal policy must go hand in hand with the fiscal reform; (6) The funding for the fiscal policy must come from diverse sources; (7) The choice of the fiscal policy should fully consider external impacts. The future fiscal policy should revolve around serving the modernization of china's governance system and capacity, and serving China's contribution to the building of a community with a shared future for humanity. We should update our knowledge on the fiscal policy to support the decision-making for the choice of fiscal policy. The goal of fiscal policy should be set in coordination with that of other policies. Moreover, from the perspective of the government's disposable revenue and cash flow, the paper probes into the space and challenges for future fiscal policy and sorts the problems of the transmission mechanism that might prevent the fiscal policy from working.

Keywords: fiscal policy, China's public finance, fiscal reform, macroeconomic regulation

1. Introduction

China only started to adopt fiscal policy in the real sense of modern macroeconomics

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after its reform and opening up began. This is not to say that there had been no fiscal policy before. According to Xiang (2001), "Back then, the concept of relatively independent fiscal policy for macroeconomic regulation purposes had not been widely recognized and put forward." Obviously, this is only a narrow definition of fiscal policy which views its only purpose as maintaining macroeconomic stability.

Whatever the form, fiscal policy is bound to have objectives, work through fiscal revenue and expenditure, and play its role under certain mechanisms. Before China began its reform and opening up, there had been fiscal policy, only in a form different from that of a market economy. When China was still a planned economy, its fiscal revenue and expenditure were strictly planned, making it difficult to recognize its fiscal policy. Such fiscal policy lacked independence and was affiliated with the state plan. In other words, fiscal revenue and expenditure had to follow the requirements of the state plan closely and strictly. As part of the state planning system, such fiscal policy served the goal of macroeconomic regulation and control. For a long time, there has been another kind of fiscal policy which corresponds to principles and guidelines and is consistent and stable, as it is often claimed to be. It is more a system than a policy; or it can be understood as fiscal policy in the broad sense, which naturally includes policy that serves microeconomic goals. However, by this standard, almost all fiscal systems and activities are related to fiscal policy, which will become almost the synonym for public finance and lose the meaning of its very existence. Important as it is, it has taken time before fiscal policy becomes a firmly established and indispensable subject in the study of public finance (Wang, 1984, 1989).

Consequently, this paper will focus on the fiscal policy that aims at macroeconomic stability. The actual implementation of this type of fiscal policy serves more policy objectives than mere macroeconomic stability, which further enriches its content and requires an insight that transcends macroeconomic stability to fully understand its role. A review of literature reveals systematic evaluation of China's proactive fiscal policy (Xue and Zhang, 2018), exploration of the analysis framework for fiscal policy in the new macroeconomic situation (Duan, 2018), study on fiscal policy for transforming driving forces for economic growth (Ma and Gao, 2018), and probes into tax and fee reduction policies (Zhang, 2019), to name a few, which have enriched the study of China's fiscal policy to varying degrees. This paper will review China's fiscal policy practice in the past 70 years, summarize characteristics at different stages, draw lessons and looks into the future.

2. Characteristics at Different Stages

2.1. Fiscal Policy Mainly Aimed to Restore the National Economy: 1949—1952

This was the first time that China adopted the market-oriented fiscal policy, right after the founding of the People's Republic of China and before the establishment of the planned economic system. It would take some time before China put the socialist market economic system in place and resumed the market-oriented fiscal policy. Though China stressed the role of the market at both times, it recognized different ways, extents, objectives, and environmental conditions for the market to play its part.

The People's Republic of China faced a quite serious inflation problem right after its founding. The newly established regime had no choice but to stabilize prices as soon as possible. A fiscal deficit led to excess issuing of currency, the most direct cause of inflation. To solve the problem of inflation completely, one must cut the fiscal deficit. However, it was hardly possible to either raise revenue or reduce expenditure. On the one hand, military expenditures, general administrative expenses, and taking over military and educational personnel of the old regime lead to enormous fiscal pressure. On the other hand, raising adequate fiscal revenue required a unified fiscal and economic system, but most importantly a unified fiscal system. Therefore, the gap between fiscal revenue and fiscal expenditure remained.

The market-oriented fiscal policy adopted at this stage was actually implemented in an extremely fragmented market economy. Back then, China was basically an agricultural country, with a poorly developed market. Even in the so-called most developed coastal areas, industrialization was barely seen. With domestic problems unsolved, China continued to face the pressure of a looming war. With the war to resist US aggression and aid Korea going on, there was hardly any chance of cutting fiscal expenditure. It would be a great achievement if public finance managed to run normally. The fiscal balance continued through 1951 and 1952, which registered a fiscal revenue of RMB 17.394 billion and a fiscal expenditure of RMB 17.207 billion, but found it difficult to fulfill employment goals and other policy objectives. It should be said that the goal of restoring the national economy was successfully achieved. In 1953, the gross domestic product (GDP) increased by 15.6% over the previous year and maintained a positive growth (4.3%) in 1954.

2.2. Planned Fiscal Policy: 1953—1978

In 1953, China began to implement the First Five-Year Plan (1953—1957). Due to the lack of experience, the planning was not finished when the implementation began. However, that did not disrupt the construction of major projects, which were closely linked to the planned economic system. During this period, 156 key projects were developed with the aid of the Soviet Union and became the pillars of China's industrial system, which were further completed by more than 900 large and medium-sized supporting projects. Therefore, the central task of fiscal policy was to finance key construction projects. By the end of 1956, China had basically completed the socialist transformation of agriculture, handicrafts, and capitalist industry and commerce. In addition to tax policy, China managed to amass fiscal resources through price policy, depreciation policy, and low-wage policy. Macro fiscal policy was integrated with micro fiscal policy and state finance with state-owned enterprise finance. The macroe goal of fiscal policy was achieved through direct intervention in the micro economy.

Direct regulation of fiscal policy in the planned economic system built upon the premise that enterprises (mainly public-owned enterprises) were unable to finance and manage their business independently. Therefore, enterprise financial management (mainly state-owned enterprises) was considered part of national fiscal management. an enterprise in the planned economic system was not allowed to choose its own way of development, including its cost accounting system but had to follow the instructions of direct economic regulation. This approach enjoyed the advantage of ensuring the strict implementation of fiscal policy from top to bottom, but might deprive enterprise of vigor and creativity. Spiritual incentives could play a significant role in the short term, but ultimately would not replace material incentives, leading to seriously impaired efficiency of enterprise production and national economy. The planned economic system regulated everything according to plans, but plans impeded efficiency and ultimately undermined the normal operation of the system itself.

The planned economic system viewed fiscal revenue and expenditure balance as central to macroeconomic stability. Being debtless both internally and externally was once regarded as a sign of the superiority of the socialist system. It was indeed important for fiscal policy to encourage spending within means because there was almost nothing left to be collected for revenue (Zhang, 1993). If expenditure exceeded revenue, it would only be an over-allocation of national income, leading to the imbalance of both public finance and national economy. The comprehensive balance of the national economy required not only an overall balance, but also balance in four specific areas, namely fiscal balance, credit balance, material balance, and foreign exchange balance (added later). It covered both funds and materials and required the balance between the two. It called for balance both internally and externally and demanded the development of the national economy according to planned proportions. As fiscal policy was being implemented, some experience was gained with regards to the allocation of financial resources. For example, the "2-3-4" rule required that of the total national income, 20% should go to accumulation, 30% to fiscal revenue, and the proportion of capital expenditure to fiscal expenditure should be 40%.[1]

Quite aware of the law governing the proportional and coordinated development of the national economy, China still allowed construction to overtake the accumulation of fiscal resources in some cases. Fiscal deficit appeared in 1953, 1955, and 1956 and the

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[1] Bo (1992) pointed out in "Setting the Right Proportions of Accumulation and Consumption" (September 18, 1956) that, "Under normal circumstances, 20% or slightly higher of China's national income should go to accumulation, 30% or slightly higher to cover national budget, and 40% or slightly higher proportion of nalional budget should go to capital expenditure."

Great Leap Forward led to imbalances in fiscal revenue and expenditure. After seeing deficit for three consecutive years from 1958 to 1960, China adopted the plan to "adjust, consolidate, enrich, and improve". During this period, plans and fiscal policy checked each other and there was still some room for public finance to limit the scope of planning. However, as the "Cultural Revolution" broke out, plans became the basis, public finance the guarantee, as a result, the national economy was severely damaged (Xu, 1980).[1]

The ultimate goal of fiscal policy in a planned economic system was to maintain fiscal balance. In the final analysis, such a policy was only a kind of classical fiscal concept dominated by simple fiscal revenue and expenditure concept and viewed the avoidance of fiscal deficit and the normal operation of public finance as direct objective. In fact, fiscal policy was not required to take on too many functions in reality as many policy objectives were achieved through central planning and the public ownership of production materials. Through public ownership of materials and planned production, the government could control prices, boost employment, achieve balance of payment, and promote economic growth. Through central planning, the government did manage to control prices and commodity prices did remain unchanged for many years. However, what lied behind unchanged prices was the shortage of supply. Through the household registration system, the government divided the total population into urban *hukou* holders and rural *hukou* holders. The former were assigned jobs in specific working units in the cities while the latter worked in the countryside. Behind this seemingly full employment was the hidden problem of unemployment as more were employed than optimal demand. Through strict control of import and export trade and foreign exchange management, the government maintained foreign exchange balance but the country's economic openness suffered. The traditional economic system allowed some growth but lacked long-lasting momentum. Subject to drastic volatility, economic growth suffered from the lack of driving forces and even setbacks, which made it ultimately difficult to achieve the goal of macroeconomic stability. It was against this background that the government found it its most urgent task to reform the traditional planned economic system and build an institutional and policy mechanism that could better safeguard economic stability.

2.3. Fiscal Policy Accommodating the Needs of Economic Transformation: 1978—2012

By economic transformation, we mean the transformation from the planned economy to the market economy. When China began reform and opening up, the

[1] Li and Bai (1999) described the role of fiscal policy in the planned economic system as follows: According to the comprehensive fiscal and credit plan, the Planning Committee made plans and public finance and banks provided the money. Planning instructed public finance, public finance instructed banks, and banks issued currency. Such fiscal policy that lacked independence and followed plans was only a means of planning.

specific goals of economic reform were not clear. However, as the role of the market had always been emphasized, it was quite clear that the reform would be market-oriented. Although the priority of reform kept changing, enterprises were always given an active role as cells of the national economy, and decentralization and interest concessions further increased their vitality. Opening up attracted foreign investment, which required a truly market-oriented macroeconomic policy environment. Economic forces outside the system were also growing, noticeably township enterprises and enterprises of the non-public sector. Gradually, central planning could no longer play a fundamental role and government macro-control measures had to change from direct intervention to indirect regulation.

To transit from the planned economy to the market economy, the government need make adjustments in three aspects in terms of how to manage the economy, namely, replacing microeconomic management with macroeconomic management, replacing direct management with indirect management, and replacing a directive annual plan with instructional medium-and long-term plans (Xiang *et al*., 1993). Economic transformation saw the introduction of some new measures for macroeconomic regulation and control, such as taxation (construction tax and fixed asset investment orientation regulation tax). However, new measures do not necessarily match the needs of the market economy, as the search for the right fiscal policy is always an ongoing process.

In 1992, the development of fiscal policy entered a new stage as the goals of the reform of the socialist economic system became clear. From 1978 when China began its reform and opening up to 1992, central planning played a dominant role in economic development but fiscal policy also had its place. Starting from 1992, fiscal policy became increasingly independent. Although central planning continued to exert its influence, fiscal policy was more and more tuned to the needs of the market economy. In other words, a market-oriented fiscal policy was emerging with clear characteristics. Meanwhile, China was shifting from a sellers' economy to a buyers' economy, which provided a material basis for the implementation of expansionary fiscal policy. In reality, China defined the various types of fiscal policy adopted since 1992 in no different way from other market economies (Table 1). Although its terminology might have some Chinese characteristics, basically, the type of fiscal policy was described according to expansionary (proactive) policy, neutral (prudent) policy and tight policy.

Table 1. Fiscal Policy since 1993

Time	Type of fiscal policy
1993—1998	Moderately tight
1998—2004	Proactive
2005—2008	Prudent
2008—presnet	Proactive

Source: Xie (2009).

China did not specify the types of its fiscal policy until 1993 but had always stressed fiscal balance in actual practice. However, except for 1985 when there was a slight fiscal surplus according to official reports, the years from 1978 to 1993 all saw fiscal deficits. It was, therefore, generally an expansionary fiscal policy.[1]

2.4. Fiscal Policy Accommodating the Needs of the New Era: 2012—Present

In 2012, socialism with Chinese characteristics entered a new era. In 2013, the third plenary session of the 18th CPC Central Committee redefined public finance as the foundation and important pillar of state governance. This means that further reform of the fiscal and taxation system should aim at developing modern fiscal policy, which not only helps realize macroeconomic stability goals, but also plays an important role in the modernization of the state governance system and the enhancement of state governance capacity. Fiscal policy must be understood from the perspective of building a modernized country. Its implementation should contribute to the establishment of a modern economic system and to the realization of high-quality development goals.

The years following 2012 have witnessed the uninterrupted implementation of a proactive fiscal policy which has been in place since 2008, but there have been many operational adjustments. For instance, the emphasis was on structural tax cuts in 2008, switched to tax and fee cuts in 2018, and more emphasis was on strengthening and enhancing effectiveness in 2019.

We are now witnessing major changes unfolding in our world, something unseen in the past century. In recent years, the economic situation at home and abroad has become increasingly complex, so has been decision-making on fiscal policy. To counter the downward pressure on the economy, we need a more strengthening and effective proactive fiscal policy. However, fiscal policy cannot replace the market or the society, and the role of either should be fully respected. Fiscal policy faces significant operational pressure and fiscal risks continue to increase. Local debts, especially some hidden debts and contingent liabilities, are looming threats to macroeconomic operation.

In the socialist market economy, the market is playing an increasingly decisive role in resource allocation and fiscal policy mostly functions within the law of the market. For fiscal policy in the new era, the supply-side structural reform is a new condition and offers new options. With the advent of an era of economic globalization

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[1] Li and Bai (1999) conducted a study on China's fiscal policy since the reform and opening up and believed that China adopted a seemingly tight but actually loose fiscal policy in the reform. They listed some signs of the loose fiscal policy: the macro-tax rate or the proportion of fiscal revenue to GDP was declining; fiscal expenditure increased faster than fiscal revenue; fiscal deficit remained and continued to expand; and national debt continued to expand. A loose fiscal policy may not be a conscious choice but indeed a correct one, as it supported reform and opening up and promoted overall economic and social progress.

and against the background of building a community with a shared future for humanity, a country can no longer choose its fiscal policy solely based on its domestic considerations. International coordination has become more important than ever. How to choose the right fiscal policy compatible with the open economic system has become a new topic for all countries and regions.

3. Summary of Experience

3.1. The Goal of the Fiscal Policy Should Be Set Based on a Correct Understanding of the Role of the State

A country's fiscal revenue and expenditure are means to achieve its goals. Therefore, the functioning of a country's fiscal policy is directly affected by how the role of the state is understood. For a long time, the limitation of that role has not been fully recognized. That explains why a government may take on many responsibilities beyond its functions, mostly during the planned economy period but also in the economic transition period. Before the goals of the socialist market economic system reform are clearly defined, many will fail to recognize the role of the market and the government is forced to go the extra step. When faced with relatively simple economic conditions and provided with ready models to follow in terms of economic development stages, the government might find it easy to play the extra part. However, once the situation becomes complicated or domestic conditions lead to unexpected emergencies, the role of the government may fail expectations or even go in the wrong direction. These are all based on the presumption of a benevolent government. In fact, government officials are more like economic men whose behavioral goals tend to make the issue more complicated.

In the planned economic system, the role of the central plan could easily become exaggerated. The lack of adequate incentives and information for effective resource allocation plunged economic operation to inefficiency and ultimately led to the collapse of the planned system altogether. As the system itself is failing, it is no wonder that the fiscal revenue and expenditure subsystem becomes distorted and fiscal policy objectives difficult to achieve, though planned economic system is not an ideal place for fiscal policy to fully and independently play its role. At the early stages of economic transition, market-oriented reforms have begun, but the role of the government continues to be overestimated and the market is only considered as complimentary and its role limited. Only when the objectives of the market economic reform are clearly defined can we expect a correct and sound understanding of the role of the government and that of fiscal policy.

The role of the government should not be understood as either black or white. Due to the complexity of the real economy, it will be a long and complex process before we arrive at the right conclusion. We can gain experience from practice. Meanwhile, we may learn from other market economies by studying their theories and practices and gradually arrive at the conclusion that government behavior should also be governed by market rules. The realization of fiscal policy goals in a market economy will benefit from the transition from microeconomic intervention to macroeconomic management and from direct to indirect regulation.

3.2. Respecting the Law of Public Finance is the Foundation of Successful Fiscal Policy

For fiscal policy to successfully work, it must respect the law of public finance. This is true no matter in the period of national economic recovery, planned economy or market-oriented reform.

In the period the national economic recovery, public finance faced pressure on both expenditure and revenue. Monetization of fiscal deficit further increased inflation. Simply issuing more currency would not solve the problem of fiscal deficit, but the choice of fiscal policy that respects the law of public finance could play a close part in swiftly stabilizing prices.

In the period of planned economy, the desire for economic development urged people to speed up the building of the socialist economy. However, the Great Leap Forward Movement was only followed by the stagnation of the national economy, because it had ignored fiscal constraints and law of public finance. Back then, relatively reliable empirical data had been collected on the proportion of accumulation to consumption, the proportion of fiscal revenue to national income, and that of capital construction expenditure to fiscal expenditure. Only by following the law and remaining conscious of fiscal constraints could one aspire to reduce economic volatility, which was often associated with ignoring fiscal constraints and experience-based proportion.

In the period of economic transition, fiscal constraints remained a problem. China no longer strived to be a debt-free country, but instead introduced national economic construction bonds to fully tap the potential of economic development and promote its stable growth. In this process, the problem of financial bank overdraft was finally solved. Since 1994, the practice of issuing currency to make up for deficit has become history and China has tackled inflation with more effective measures.

When it began to enact the proactive fiscal policy that focused on introducing more government bonds and expanding fiscal expenditure in 1998, China took into account the fiscal constraints at the time. When the proportion of fiscal revenue to GDP was only recovering momentum, there was very limited room for tax cuts. This year (2019), when fiscal revenue was growing steadily, China's increased fiscal resources was contributing to the effective enactment of a proactive fiscal policy that stressed tax and fee cuts. On the whole, the enactment of the proactive fiscal policy has helped optimize the economic structure, promote technological advancement, and enhance the competitiveness of Chinese enterprises. However, there are also lessons to be learned. Public finance has played a role in the creation of zombie enterprises and companies with overcapacity. The use of fiscal subsidies is right, but the specific way of granting such subsidies may be improved. Even in some emerging sectors where fiscal input is always needed, there is also the problem of overcapacity. Fiscal subsidies have not achieved the expected results, in some cases failing to nurture emerging sectors and in other cases failing to reform traditional sectors. Fiscal expenditure is more than giving out money, just as tax and fee cuts are more than cutting revenue. Assess the effectiveness of fiscal policy, and we will find ways for further improvement. Fiscal policy and its implementation in the past 70 years have taught us that enactment of policies does not guarantee the realization of goals, which ultimately relies on the full respect for the law of public finance. Faced with increasingly complex economic conditions, it is not easy to understand the operational environment for fiscal policy. For fiscal policy goals to be realized, we need to better understand the role of the government and that of fiscal policy and become masters in policy formulation and enactment.

Respecting the law of public finance is also an inherent requirement for guarding against fiscal risks. Disregard the law of public finance and financial constraints, and we will not only fail in the realization of fiscal policy objectives, but also jeopardize fiscal operations, create fiscal risks, and even cause fiscal crises.

3.3. Fiscal Policy Must Aim Higher Than the Goal of Macroeconomic Stability and Provide Guarantees for Industrialization and Modernization

As a developing country, the People's Republic of China set the goal of establishing a modern industrial system shortly after its founding. It was also an inevitable choice as the newly founded country embarked on a journey towards prosperity. Promoting macroeconomic stability is the inherent requirement of fiscal policy. Theoretically, where expansionary fiscal policy is enacted, expenditure can always make up for the lack of effective demand and promote economic stability. However, no country will easily give up other policy goals while expanding expenditure.

The past 70 years have witnessed how fiscal policy promoted industrialization and modernization in China. Without the support of fiscal policy, there would not have been comprehensive economic and social development. China started to build its modern industrial system by giving strategic priority to the development of heavy industry. This was also an inevitable choice for this developing agricultural country, which had to devote its very limited fiscal resources to heavy industry. Through fiscal policy, China was able to direct money to the capital-intensive heavy industry. Due to the price scissor for agricultural and industrial products, this meant that agriculture was directly contributing to fundraising for industrial development. In industrial enterprises (mainly state-owned ones), the low-wage system and the government-dictated pricing system further ensured that fiscal resources could be concentrated and used by the state for major undertakings. In this way, China was able to establish its modern industrial system within quite a short period of time. The way that fiscal policy supported China's industrialization surely needed improving due to the inherent weakness of the planned economic system. Since China initiated the market-oriented reform and redefined the goals of reforming the socialist market economic system, fiscal policy has increasingly resorted to market means and indirect regulation to support industrialization in the new era. In the market economy, fiscal policy no longer functions at the expense of distorting market mechanisms, but chooses a more proactive approach that focuses on encouraging technological upgrading and industrial structure optimization.

Modernization means social progress. Fiscal policy, while supporting social progress, fulfills its role as the foundation and important pillar of state governance more adequately. With industries giving backing to agriculture and cities giving back to the countryside, rural areas are benefiting more fully and directly from public finance. Fiscal policy support has helped improve the quality of public goods and services in the countryside. Fiscal policy is also playing a significant part in the integrated policy system for coordinated urban and rural development. Modernization provides the platform where the full potential of fiscal policy is being realized.

3.4. The Government Should Understand Fiscal Deficits While Proactively Guarding Against Fiscal Risks

The reform and opening-up was a watershed in the history of China's public finance in terms of fiscal deficits. Fiscal deficits occurred in 11 out of the 29 years from 1950 to 1978, but only in 1985 and 2007 during the 41 years from 1979 to 2019 there were no fiscal deficits.[1] However, this does not mean that China was financially better before the reform and opening up. At the earlier stage, fiscal deficits appeared after the full potential of fiscal revenue had been exhausted and the only way to make up was to issue more currency. At the latter stage, the years before 1994 still witnessed the appearance of "hard deficits", which required the issuance of more currency. After 1994 when fiscal deficits can no longer be solved through bank overdrafts, issuing public bonds become the only way out. Whatever is the case, the monetization of the fiscal deficit means currency depreciation and the pressure of rising prices. Although a byproduct of fiscal

[1] There are many statistical criteria for fiscal deficits. Here the fiscal deficit is calculated as the annual difference between fiscal revenue and expenditure to avoid the interference of the budgetary stability adjustment fund. See Yang (2018) for details.

imbalances, fiscal deficits are not necessarily equivalent to financial difficulties in many cases. For example, there were both fiscal deficit and excess fiscal revenue in 2004, with the latter far greater than the former. Therefore, deficit could be completely removed with part of the excess revenue (Gao, 2006). When we analyze fiscal deficits, we should refrain from the traditional thinking of equating them with fiscal difficulties, but look at them within the bigger picture of national development and economic construction.

Fiscal risks have always been stressed. During the period of the planned economy, a fiscal deficit was a problem, and is was also a problem that fiscal surplus was not appropriate to deal with fiscal deficit. It should have been a sound practice to make up for fiscal deficit with fiscal surplus. However, as the planned economy allowed the use of the fiscal surplus beforehand,[1] it created a different fiscal risk where there was no surplus to be used when needed. Even after China started the reform and opening up, policy makers never gave up the obsession with "fiscal balance". Although economic development did require a fiscal deficit in some cases and deficit had continued to exist for many years, policy makers still expressed the hope that fiscal balance be achieved by 2000 through moderately tight fiscal policy. Unfortunately, this hope did not materialize with the outbreak of the financial crisis. In terms of local public finance, no deficit was allowed before 2015. Policy makers were so attentive to fiscal deficits and the accumulated risks of public bonds that they would only allow provincial governments to issue local bonds and the deficit rate to rise at a slow pace. Despite the fact that the fiscal deficit rate has exceeded 3% in many countries, China still refuses to allow its nominal deficit rate to cross the red line,[2] even in years like 2019 when its proactive fiscal policy requires further tax and fee cuts, more fiscal investment, and increased efficiency. However, as 3% is only the outcome of political compromise within the European Union, it is not a red line in the real sense.

Local debts have always been emphasized. The separation of central finance and local finance has given local governments some independence in terms of fiscal revenue and expenditure. The endogenous nature of local fiscal deficits makes it necessary to have local debts, which tend to exist in a hidden way for a long time and create risks to local finance. In recent years, local debts have gradually come to light. The practice of allocating fiscal resources through transparent channels instead of backdoors provides a most sound and effective way to guard against local fiscal risks. In short, the normal functioning of fiscal policy relies on adequate preventive measures against fiscal risks. It is not possible for great outcomes to be achieved with malfunctioning fiscal policy.

[1] Li Xiannian, then Vice Premier and Minister of Finance of the State Council, pointed out in his report to Premier Zhou Enlai on January 12, 1955 that the fiscal balances of the past years "have already been used by the Ministry of Commerce and the Ministry of Food, etc." (Editorial Board of *Biography of Li Xiannian*, 2011)

[2] This is the fiscal deficit ratio calculated by official criterion, not the same as that calculated by the annual difference between fiscal revenue and expenditure.

3.5. The Implementation of Fiscal Policy Must Go Hand in Hand with the Fiscal and Taxation Reform

The implementation of fiscal policy requires appropriate policy tools. What are the available policy tools? How should they be employed? The answers can be found in the fiscal and taxation reform. Deepening fiscal and taxation reform will provide better tools and a more solid institutional basis for the sound implementation of fiscal policy. The short-term fiscal policy of promoting macroeconomic stability should be adjusted to comply with the medium-and long-term goals of the fiscal and taxation reform. In this way, short-term fiscal policy can have medium-and long-term influences. It has been 11 years since China started the new round of proactive fiscal policy in 2008 and China are strengthening the proactive fiscal policy and making it more effective. This is partly due to the relatively slow progress of the fiscal and taxation reform. It should be said that the reform has sped up since socialism with Chinese characteristics entered the new era. However, due to its extensive coverage, supporting measures for comprehensively deepening reform are still needed in certain areas, which undermines policy effects to some extent. In this sense, the fiscal and taxation reform is an important measure to remodel the transmission mechanism of fiscal policy. Deepening the fiscal and taxation reform can provide strong support for the sound operation of fiscal policy, which should in turn play a more active role in responding to macroeconomic changes.

The fiscal and taxation reform can also contribute to the better management of public finance. In the planned economy, fiscal surplus was used beforehand and when required to make up for deficit, could no longer be found. Problems like this will only arise when public finance is poorly managed. With standard institutions in place for the use and management of fiscal funds and surpluses, this kind of problems will no longer exist. The extra-budgetary fund management system has been under reform since its inception. The fiscal and taxation reform also aims at institutional improvements in the management of non-tax revenues and government funds and the transfer of State capital operating incomes. Through all these measures, we can change the low level of fiscal management caused by dispersed fiscal resources, eliminate interfering factors, and significantly improve fiscal management. It can be said that the fiscal and taxation reform has not only improved fiscal management, but also reshaped the microeconomic basis for the sound operation of the fiscal policy system and created favorable conditions for the enactment of market-oriented fiscal policy.

3.6. The Funding for the Fiscal Policy Must Come from Diverse Sources

The implementation of fiscal policy requires sufficient funding. A country without sufficient fiscal resources will find it difficult to maintain the normal operation of public finance, let alone taking active policy measures to regulate the economy. If a government lacks fiscal resources, it is shown in many ways and the most serious one is the general lack of funding. Another form of fiscal inadequacy is the dispersing of fiscal resources among different economic entities with different aims, which makes it difficult to join efforts for major undertakings. During the period of the planned economy when the government tended to concentrate fiscal resources, that fiscal resources were dispersed was not a serious issue. During the period of economic transition when the traditional economic system was abolished but the new system was yet to be established, dispersed fiscal resources became more prominent. The separation of central finance and local finance aims to inject vigor into the system but has led to drastically different outcomes, with local governments paying more attention to fiscal interests. The decentralization and interest concession from public finance to state-owned enterprises does not change the nature of these enterprises but makes them more attentive to interests. When such incremental reforms progress to a certain level, non-public enterprises will be able to compete with public enterprises on a level playing field and further increase their influences, which might undermine the government's ability to get sufficient funding.

China used to categorize a government's fiscal resources as budgetary, extra-budgetary, and extra-system. Extra-system funds came from outside the fiscal system and needed to be regulated. The scale of extra-budgetary funds was once as large as that of budgetary ones. With the entry into force of the *General Rules on Financid Affairs of Enterprises* and the *Alcounting Standards for Enterprises* on July 1, 1993, enterprise funds are no longer managed as extra-budgetary funds. In 2010, the concept of extra-budgetary funds was abolished to further motivate enterprises and sectors and China began to implement the full coverage and uniform management of government budgets. The current government budget system, which consists of general public budget, government managed funds budget, state-owned capital operations budget, and social insurance funds budget, generally reflects the overall state of the government's fiscal resources. Although coordination among these budgets is increasing, there is still room for improvement and further integration of the government's fiscal resources. There is also room for improvement regarding the allocation of funds within general public budget. The mechanism governing the division of labor and cooperation between other specialized functions and fiscal authorities should also be improved to ensure sound management of public finance and other specialized functions. It is also necessary to reform fiscal institutions and further clarify fiscal functions. Sufficient funding provides the basis for the effective functioning of fiscal policy. Sufficient fiscal resources can create a large platform for fiscal policy and guard against operational risks.

3.7. The Choice of Fiscal Policy Should Fully Consider External Impacts

With the ever-closer economic ties around the world, the development of both small and large economies is susceptible to external factors. One economy is connected to the world through an increasingly numerous set of networked means, which facilitate information transmission, reduce the cost international division of labor, and accelerate market integration. Economies influence each other in trade, investment, and other financial activities. Import and export in one region may have impacts on other regions. The international flow of capital further increases the contagiousness of international financial crises. This interconnectivity of the world economy makes the international coordination of fiscal policies more important than ever. Through bilateral and multilateral dialogues such as the G20, the Asia-Pacific Economic Cooperation, the BRICS cooperation mechanism, and the Shanghai Cooperation Organization, China has strengthened the coordination of fiscal and other economic policies with many other countries in the world and promoted the stability and growth of the global economy. Within the existing international economic and financial framework, China has launched the Belt and Road Initiative and with concerted efforts, provided another option for safeguarding global economic and financial stability. The world econormy is full of uncertainty, smooth communication and complete mechanisms can make the international coordination of fiscal policy smoother.

4. Fiscal Policy for the Future

4.1. The Foothold of Future Fiscal Policy

Firstly, the future fiscal policy should aim to serve the modernization of China's system and capacity for governance and contribute to the building of a community with a shared future for humanity. In a globalized society, fiscal policy should look beyond one country and see the whole world. In the era of globalization, the requirement of global governance reform makes it necessary to choose fiscal policy that enhances a country's competitiveness. Globalization may also make the spillover effects of fiscal policy more prominent. The global market brings a country's policy benefits to people around the world and one may question what the share for the country's own people is. That is why the international coordination of fiscal policies has become more important than ever. Is it necessary to establish the fiscal policy committee? If yes, what operating mechanism should it adopt? To answer these questions, we should first go through the functions and performances of existing agencies. Fiscal policy should focus on creating favorable conditions for economic and social development, accommodating the needs of innovation-driven development strategy, and ultimately increasing one country's technological competitiveness.

Secondly, the effective implementation of future fiscal policy should start with a new perspective of understanding. New conditions require new knowledge. Policy works within contexts. Policy and its priorities change with contexts. The new round of industrial revolution is characterized by intelligence, networking, and digitization, which makes the reform of global governance a necessary choice (Xie, 2019). In the era of digital economy, what will happen to fiscal revenue and expenditure? The transfer of tax sources can be far more dynamic than that of a traditional society or an industrial society. It is no longer limited to the transfer of headquarters economy, but may involve numerous forms of transfer pricing within one enterprise. In addition to domestic transfers, there will also be cross-border transfers, making it increasingly necessary to restructure the taxation system. Introducing a digital service tax is an option, but it requires further evidence to conclude whether the current proposal of targeting digital giants suits the needs of future development. The problem is not only on the revenue side, but also on the expenditure side. Strictly speaking, revenue exists for the sake of expenditure. Without expenditure, there is no need for revenue. However, a new perspective has emerged. Traditionally, people tend to value stability over fluctuation in terms of tax sources. But nowadays, stable tax sources continue to play a less important role in the creation of wealth. Important as it is for the industrial society, the real estate tax is bound to see its influence diminishing in the era of digital economy. Further studies are needed to address this dilemma.

Thirdly, an efficient policy-making system is a faworable condition for China to implement discretionary fiscal policy. Timing might be a prominent issue for the enactment of future fiscal policy. With the increasingly complex economic situation at home and abroad, it might become more and more difficult to promptly identify the right conditions for the introduction of new measures. Faced with a world of uncertainties, the government should strive to lessen the pressure on fiscal policy and allow the market to play a bigger role in addressing economic issues.

Fourthly, setting the right objectives is important for further improving the efficiency of fiscal policy. Fiscal policy objectives should align with other policy objectives, most importantly economic and social policy objectives. Economic stability and growth lay the foundation for the implementation of all policies. It is always emphasized that economic base determines finance and finance influences economy. The realization of economic policy objectives will facilitate the fulfillment of social policy objectives. Economic growth will create more resources to be devoted to social development and shared among more people. The realization of social policy objectives will also facilitate the fulfillment of economic policy objectives. The fair distribution of income and the stable social order will further strengthen the foundation for economic growth. With economic and social stability, it will become easier to realize political, cultural, and ecological objectives.

4.2. The Opportunities and Challenges for Future Fiscal Policy

How much room is there left for China's future fiscal policy? Simply put, it depends on the fiscal resources to be employed. This is a cash flow issue. In the short run, government-owned assets can constitute a one-time financial base. In the long run, the regular tax revenue plays the decisive role. As long as government-owned assets continue to generate benefits and the inflow of tax revenue remains uninterrupted, there will be regular fiscal resources to be disposed of. Debt financing is the lowest requirement. It is better to also consider the impact of fiscal policy on economic growth. The choice of the right fiscal policy should never neglect such fundamental issues as the crowding out effect and the multiplier effect. An in-depth analysis of government-owned assets is also necessary. How many assets are available? Which assets can be monetized? What is their value? Government-owned assets should exist in the most efficient form so as to increase their value when monetized. How is the perspective for government-owned assets to be securitized? In terms of government debt, we may also ask some questions. What is the scale of government debt? What is the current scale of local hidden debt and contingent liability? When will the government become the debtor? In what way? Under what conditions? As is commonly understood, if the local debtor fails to pay the debt, it will continue to operate normally once the local government has monetized its assets or injected capital. Therefore, we should refrain from overestimating the scale of hidden government debt. Only the injected capital or monetized assets can be viewed as the real debt burden. Only when net assets become negative are they a burden on the government. As long as the local debtor carries its normal business, its assets can easily cover its liabilities. Only when the business operation and flow of income become disrupted will the debt problem get serious. Therefore, we should look at the sustainability of debt from a developmental perspective.[1]A debt might look overwhelming in the short term but become trivial in the medium and long term. Economic growth is the best solution to debt. In reality, a debtor always borrows from another party in order to pay an existing debt. But is it the only option? What will be the economic consequences of snowballing debt? Do we need to discuss the payment of the principal? These are all questions waiting to be addressed when we talk about the opportunities and challenges for fiscal policy in the future.

4.3. The Effective Functioning of Fiscal Policy Needs an Effective Transmission Mechanism

Different from western countries, China allows its state-owned capital to play a direct role in macroeconomic regulation and control. This is something uniquely Chinese. That leads to the following questions: How does the transmission mechanism

[1] Studying the Chinese government's balance sheet provides the necessary basis for analyzing fiscal sustainability. See Yang and Zhang (2017).

of fiscal policy work? How does the market, together with its structure and various players, adapt to this type of indirect regulation and control? A sound market makes it easier to receive policy signals. Take the policy on tax and fee cuts for example. Its effectiveness is closely related to these questions. Some other questions are also worth our attention: Who needs tax cuts most? To what extent can inclusive policy objectives be achieved? Which sectors and which groups of people will benefit more from fiscal policy? In general, fiscal policy cannot replace the role of the market, but should mainly help the market to play a decisive play in the allocation of resources. Instead of favoring monopoly sectors and companies with more policy benefits, a sound market-oriented economic system aims to safeguard market order. How can fiscal policy become more effective? What is the proportion of fully responsive market entities to those that fail to promptly respond to policy signals? Price distorting will not be corrected within one day, as inadequate industrial openness and monopoly pricing require more practical experience to address. How to improve market competition? These are all issues that need to be faced when fiscal policy can play its full part.

It is necessary to assess the effectiveness of fiscal policy, as it is the only way for future improvement. The implementation of fiscal policy requires the integration of disposable fiscal resources of state-owned economy (not in market competition) that are dispersed in different government agencies for joint efforts. The efficiency of fiscal policy, simply put, can only be improved with increased efficiency of fiscal funds and improved budget performance. Government budget should be transparent, binding, and under strict control. Its performance should be assessed. Local budget performance should be assessed mainly against horizontal indicators, but vertical indicators are also important references. Central budget performance should be assessed mainly against vertical indicators, but horizontal indicators of other countries should also be considered. The assessment of the efficiency of fiscal funds should rely more on quantitative methods that are widely used in assessing public policies. Qualitative and quantitative methods can complement and provide references for each other.

The effectiveness of fiscal policy also relies on the progress in deepening the fiscal and taxation reform and establishing the modern fiscal system. The fiscal and taxation reform provides the context for fiscal policy to better play its role of an automatic stabilizer. It is indispensable to improve the system of government revenue and expenditure. The progressive tax system and the sound social security system are the basis of the automatic stabilizer.

5. Conclusion

A review of the fiscal policy adopted by the People's Republic of China in the past 70 years reveals that fiscal policy should be understood not only as a macroeconomic stabilizer but also as part of the public policy that helps modernize China's system and capacity for governance. Fiscal policy must be supported by sufficient fiscal resources and requires the normal and sustainable operation of public finance. Changes in the objectives, tools, operational conditions, and effects of fiscal policy should be followed closely. China should look at both national and global conditions when deciding on its future fiscal policy. The choice of china's future fiscal policy must be based on China's national couditions, have a global version, and be combined with fiscal and taxation reform to meet the needs of new economic development in the new era.

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