China's Proactive Fiscal Policy

Xing Li, Chen Long*
Chinese Academy of Fiscal Sciences, Beijing, China

Abstract: *In contrast to the traditional Western approach to macro-fiscal management, China's proactive fiscal policy is founded on a people-centered development philosophy and, with distinctive Chinese characteristics, is a significant policy innovation of macroeconomic management in the Chinese modernization. Although there are notable distinctions between the Western "Keynesian" and the "nonKeynesian" schools of thought, both of these approaches' core policy goals and methodological roots are the same, composing the traditional Western macro-fiscal approach. This approach faces increasing real dilemmas. China's proactive fiscal policy, however, places greater emphasis on future potential growth rates in addition to equilibrium between supply and demand, achieving a fiscal policy transformation with a new approach. In this paper we argue that with such a new approach, China should reconsider the nature and reasonable level of the fiscal deficit, the function and risk assessment criteria of government debt, the scope and effects of reductions in taxes and fees, its approach and focus of demand management, and the costs and resulting efficiencies of policies in order to develop a new fiscal policy paradigm that is more in line with its stated goals.*

Keywords: *Proactive fiscal policy, fiscal approach, potential growth rate*
JEL Classification Code: G38
DOI: 10.19602/j.chinaeconomist.2024.01.04

1. Introduction

Xi Jinping, general secretary of the Communist Party of China (CPC) Central Committee, noted in the Report to the 20th CPC National Congress in October 2022 that Chinese modernization is socialist modernization under the leadership of the Communist Party of China and exhibits unique Chinese characteristics based on its national conditions in addition to the common features of modernization in various countries. The implementation of China's proactive fiscal policy, following decades of economic development, is a significant indicator of the country's progress in the realm of macroeconomic management in the Chinese modernization. An analytical summary study of the new approach in China's proactive fiscal policy is entailed not only by innovative fiscal theory development but also the needs of fulfilling the Party's mission and the nation's goals in the new era.

In October 1992 when the 14th CPC National Congress declared the establishment of a socialist market economy to be the primary objective of China's economic reforms, a modern macro-regulatory system as an essential prerequisite for a market-based economy was established. Subsequently, China has adopted macro-regulation in the context of its vision of a modern market economy. Such proactive fiscal policy interventions in 1998 and 2008 have contributed substantially to rapid and stable economic growth in China.

After 15 years of China's recent round of proactive fiscal policy, there have been more concerns for where the policy is headed and increasing controversies over the basis for its fiscal policy formulation.

* CONTACT: Chen Long, email: longccps@163.com.

中国知网 https://www.cnki.net

Problems pertaining to the space of fiscal policy, reductions in taxes and fees, the fiscal deficit, government debt, and fiscal sustainability have dominated academic and public discourse since then. If China aims to maintain rapid growth in the foreseeable future, however, we argue that this objective requires a proactive fiscal policy, though we do acknowledge that China's economic circumstances have changed significantly since the introduction of its proactive fiscal policy. Although it is important to avoid the risks associated with policy misuse, policymakers should adopt adequate initiatives to avoid wasting development opportunities. In this light, we propose that the achievement of development objectives during the 14th Five-Year Plan period and through the year 2035 depend heavily on the proactive effects of fiscal policy.

Despite their differing perspectives on the roles of government and fiscal policy, Western Keynesian and nonKeynesian traditions adopt roughly similar policy objectives and methodological foundations, and together they constitute the majority of schools of thought in Western macro-policy. With situations changing, the logic in the Western macro policy is losing power to explain and guide real-world practice. What is the most accurate metric for gauging fiscal deficit and public debt? Why did some countries experience a sovereign debt crisis while others with comparable government debt ratios continued to grow? In addition to these questions, the extensive fiscal stimuli adopted by some Western economies have generated fresh challenges and shocks to traditional theories of fiscal policy. For policymakers and academics all over the world, how to more effectively use fiscal policy remains an important question.

Due to the evolving domestic and international landscape, China's economy now faces new challenges that require a more proactive and effective fiscal policy. The degree to which such a policy improves the quality and efficiency of economic growth is largely contingent on policymakers' comprehension of its underlying mechanisms and concepts. Currently, academic research focuses heavily on quantitative analysis of policy effects. Although quantitative analysis is important, we argue that it is also necessary to investigate the intrinsic mechanisms of fiscal specific policies in order to maximize intended policy effects.

In this study we offer a new perspective and approach to fiscal policy in an attempt to obtain a better understanding of key questions that arise regarding the implementation of fiscal policy based on an analysis of Chinese and Western fiscal policies. Our hope is that this will provide theoretical support for policy improvement. First, as its chief contribution, this paper presents a summary of the macro-fiscal policy rationales of Keynesian and nonKeynesian traditions concerned with market equilibria and GDP growth. We argue that the goals of both of these traditions seek to correct market disequilibria brought on by transient shocks, and we examine several perceived shortcomings of both. Second, this paper examines the inception, development, and innovations of China's proactive fiscal policy, illuminating the distinctions between it and the traditional Western fiscal approaches. Third, our analysis of the fiscal deficit, government debt, reductions in taxes and fees, demand management, and policy cost and efficacy clears a new path for a paradigm shift in Chinese fiscal policy.

2. Western Macro Fiscal Policy: Conventional Wisdom and Real-World Conundrums

Despite recognizing the connection between public finances and economic growth and stability, economists prior to John Maynard Keynes were unable to construct a theoretical framework for macro-fiscal policy. According to Adam Smith, the government is responsible for addressing market defects and establishing fiscal objectives within the context of broader economic goals. He acknowledged the importance of public finance as a supplement to the market economy. Thomas Malthus pointed out a possible crisis in the market economy that arises from the lack of effective demand, making the case for government fiscal spending to increase effective demand and prevent the eruption of an economic crisis (Mao and Zhuang, 2010). Keynes was the originator of macro-financial policy theory in its current

中国知网 https://www.cnki.net

sense[1]. Subsequent macro-fiscal policy theories with opposed viewpoints can be roughly categorized into Keynesian and nonKeynesian traditions (classical traditions) that share a consistent rationale.

2.1 Keynesian and NonKeynesian Approaches to Macro-Fiscal Policy

Keynes created the first comprehensive theory of macro-fiscal policy. He redefined the concept of "effective demand", criticized Jean-Baptiste Say's view that "supply is capable of creating demand on its own", and attributed overproduction, mass unemployment, and economic crises to a lack of effective demand. In this manner, he created a model of fiscal policy that included spending, taxation, and public debt policy.

Although it revolutionized fiscal theory, Keynesian theory has aroused extensive debate that has led to a wave of new macro-fiscal policy theories. Both neoclassical synthetics and neoclassical macroeconomics emerged from the debate between Keynesians and classical economists during the 1930s[2]. Despite a declaration of truce between the neoclassical synthetics and Samuelson in the 1950s, Keynesianism held sway in macroeconomic theories until the 1970s. It seemed that the Keynesian model was unquestionable. During the 1970s, however, Keynesianism faced sever challenges in the form of stagflation, the monetarist counter-revolution, the rational expectations, and the real business cycle (RBC) theory. In coping with these challenges, Keynesianism also made fresh developments. After the Keynesian revolution, "there were either developments in some of his (Keynesian) ideas or a revival of classical Keynesian notions". In other words, macro-fiscal policy theories evolved under two themes: One was in the "counter-Keynesian" direction towards the past (classical methodology) (Snowdon and Vane, 2019). Based on criticisms of Keynesianism, monetarism, the supply school, and the rational expectations believed self-regulation of the market can arrives at equilibrium. The other developed in the Keynesian direction, and such schools of thought as neo-Keynesianism, the new Cambridge school, and the new neo-Keynesianism school stressed the role of government in restoring market equilibrium.

Despite great differences in the views of various schools along these two evolving directions, we identify the former as the "nonKeynesian tradition" (classical tradition) and the latter as the "Keynesian tradition" according to the specifics regarding the role of the government and fiscal policy in macroeconomic regulation. Such classification is far from absolute, however.

Despite significant differences in basic concepts and views, the nonKeynesian and Keynesian traditions share consistent objectives and rationales for macroeconomic regulation, but judging by their basic concepts and views, these "two traditions" are characterized by different perspectives and views in explaining market operations and macroeconomic policymaking, some of which are polar opposites. For instance, Keynesians argue that macroeconomic policy interventions should be a short-term initiative for demand management, but the supply school is in favor of supply-side solutions to macroeconomic problems and opposed to demand management. According to the natural rate hypothesis, the rational expectations hypothesis and the monetary neutrality hypothesis under the rational expectations, macro-policy is ineffective, and the government should refrain from economic interventions. Furthermore, neo-Keynesianism inherited the basic concepts of original Keynesianism and assimilated some perspectives of other schools of thought, "pouring buckets of sand into smooth neoclassical paradigms" (Snowdon et al., 1998). Yet the nonKeynesian school has different views regarding market imperfections, macroeconomic volatility, and their effects. Despite great differences in concepts and views, the Keynesian and nonKeynesian traditions share consistent rationales and goals in the sense that they are both concerned with restoring market equilibria and addressing short-term economic deviations from these equilibria due to shocks. This rationale is often labeled the four primary

[1] According to Paul Samuelson, Keynes founded modern macroeconomics, which is one of the most important events in economic science of the 20th century. See Snowdon et al. A Modern Guide To Macroeconomics, 1998.

[2] The basic structure and main theories and views of neoclassical macroeconomics took shape during debates with Keynesians.

中国知网 https://www.cnki.net

objectives of macroeconomic policy: Economic growth, price stability, full employment, and a balance of international payments. These objectives can be linked to the achievement of market equilibrium and potential output. Academics hold different views on the definition and calculation of potential output, as well as the level of potential growth across various stages of development. However, we argue that the restoration of the real growth rate toward potential growth rate is the fundamental principle of Western macro-fiscal policy.

Under this assumption, differences between Keynesian and nonKeynesian traditions are primarily reflected in views on which factors lead to market disequilibrium or deviation between real and potential growth rates, as well as which policy responses rectify such imbalances and deviations. According to the Keynesian tradition, imbalances and deviations are primarily triggered by both real demand and monetary demand. Volatility in the market economy can and should be rectified, and the government plays an important role in this process. Effective coordination and prudent application of fiscal and monetary policies are the basic solutions to the imbalances and deviations. Myriad Keynesian-theoretical perspectives have been put forth deal with the above problems. They include, for instance, the dynamic economic model based on the "multiplier-accelerator principle" developed by the neoclassical synthetics school, the economic cycle model, and the hybrid economy theory. Nicholas Kaldor incorporated the relationship between income distribution and capital accumulation into his economic growth model to explain the conditions and determinants of balanced economic growth and discovered what became known as the "Kaldor effect". He advocated adjustment to the distribution of income to stabilize economic growth. In addition, price stickiness theory and the labor market theory of neo-Keynesianism, as well as the short-term dynamic nonequilibrium theory of the nonequilibrium school, discussed market equilibria and deviations from several perspectives. Moreover, some economists have even investigated the historical trends of these deviations. One example is Hanson's "long-term stagnation theory".

Economists of the nonKeynesian tradition now tend to represent the classical tradition, believing that self-rectifying market forces can restore market equilibria via price mechanisms. They thus ascribe economic recession to excessive investment and superficial prosperity. "Interventions to stimulate aggregate demand only make things worse, and a choice can only be made between current recession and a more severe recession due to inappropriate government intervention" (Snowdon and Vane, 2019). The nonKeynesian tradition has investigated the ineffectiveness and inefficiencies of macro-fiscal policy from many different angles. For instance, Robert E. Lucas developed an equilibrium approach to business cycles and considered macro-policy to be ineffective based on the rational expectations framework and continuous market clearing conditions. Similarly, Friedrich Hayek believed that fiscal policy cannot function effectively due to the existence of internal time lag. Some other economists, while recognizing the role of fiscal policy, were in favor of supply-side adjustments only, and disagreed with Keynesian short-term demand adjustment. One example is the labor and capital "wedge" model and theory developed by the supply school.

In summary, correcting market disequilibria and restoring potential economic growth may be the common goals of macro-fiscal policy both under Keynesian and nonKeynesian traditions, but these schools have approached the attainment of these goals quite differently.

2.2 Real-World Conundrums for Western Macro-Fiscal Theories

Some have argued that Keynesian and nonKeynesian macro-fiscal policy theories, supposedly developed to address real-world problems, have dubious explanatory power. We discuss three of these arguments below.

2.2.1 Both Keynesian and nonKeynesian theories have been losing explanatory power

Real-world practice often exceeds theoretical rationale and stresses the latter sometimes to the point of breaking. Historically speaking, Keynesian and nonKeynesian macro-fiscal policy theories have

中国知网 https://www.cnki.net

evolved via a continuous cycle of revolution (innovation), crisis, and further revolution (innovation). From the Keynesian revolution to the monetarist counter-Keynesian revolution and Piero Sraffa's *A Revolution in Economic Theory*, each theoretical revolution or innovation has been a response to new developments in the real-world economies. However, theoretical assumptions have often deviated from real-world experiences. Macro-policy theories are primarily concerned with short-term disequilibria and instability rather than long-term growth and development issues, and this may be to the detriment of what may matter most in the long term: Economic growth. Fiscal policy can not only regulate the behavior of market participants, but also directly introduce its own set of participants. In addition to restoring short-term market equilibria, fiscal policy can also encompass positive factors for long-term economic growth. Indeed, several economists have commented on the question of achieving an economy's potential growth rate. For instance, Robert E. Lucas considered that in comparison to short-term demand management, there would be far greater potential for growth stemming from welfare-enhancing, long-term, and supply-side policies (Snowdon et al., 2019). Over the years, many economists began to shift their focus to long-term growth and development issues in their research on macro-fiscal theories, however, and in the process have prioritized the overall growth rate of an economy over economic stability, seemingly shifting their sights.

2.2.2 Theoretical safety and risk assessment criteria: Inconsistencies with reality

Economists have developed the concepts of crowding-out, the Kaldor effect, and the tax wedge and in addition have also come up with safety standards for fiscal deficits and government debt. "In normal years, we are in favor of a deficit in the range of 2% to 3% of GDP" (Heilbroner and Bernstein, 1993). The European Union even adopted the influential alert lines of a 3% deficit ratio and a 60% government debt ratio. In reality, however, few countries have complied with these standards. During the global financial crises in 2008 and 2020, advanced economies saw their fiscal deficit ratios increase substantially and far exceed the 3% guideline (as shown in Figure 1). Some economists have also raised objections to some of these existing so-called standards in their discussions of fiscal responses to COVID-19. According to V. Constâncio (2020), the increasingly proactive role of fiscal policy, changes in the existing consensus, and the emergence of new opinions necessitate the revision of the EU's fiscal framework.

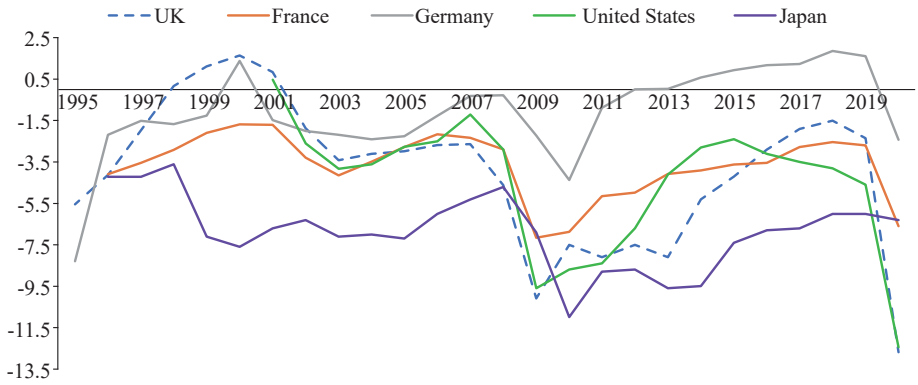

Figure 1: Share of Government Surpluses (Deficits) as a Share of GDP (%)

Source: The World Bank.

2.2.3 The conflict between short-term market equilibrium and efficiency in the allocation of fiscal resources

Resource allocation efficiency is one important metric of market-based resource allocation. However, a fixation with short-term issues and market equilibria may overlook the optimal cross-temporal allocation of fiscal resources and the application of fiscal policy instruments. As a result, the allocation and use of fiscal resources may become inefficient from a dynamic perspective. Moreover,

中国知网 https://www.cnki.net

some theories have explicitly held that short-term market equilibrium rectification may come at the expense of long-term efficiency. For instance, Thomas Malthus was in favor of wasteful fiscal spending as a solution to the lack of effective demand, and the Keynesian paradox of thrift and the argument for the government to pay people to "dig holes in the ground and then fill them up" are also at odds with the concept of fiscal efficiency. This logic also goes against the concept of fiscal efficiency. Some countries are indeed beset by such ineffective and wasteful utilization of fiscal resources as a result of the improper application of fiscal regulatory instruments, and this has had negative economic repercussions. For instance, many governments have provided cash handouts to bolster aggregate demand, but the consequences of such actions have generated considerable controversy. In addition to being expensive, ineffective, and wasteful, cash handouts have precipitated severe inflation.

2.2.4 The Keynesian and nonKeynesian macro-fiscal policy theories have lost explanatory power as a result of an emphasis on econometric feasibility

After Keynes, macro-fiscal policy theories shifted towards standard policy theory, which relies extensively on econometrics. Such reliance necessitates often stringent theoretical assumptions and restrictive conditions, and problems due to the use of economic instruments for nonobservable data. Consequently, the interrelations between the complex motivations of economic actors in a variety of complex economies have become perhaps oversimplified, leaving a multitude of important determinants of macroeconomic operations overlooked. As in the words of Robert Kuttner, "problems that standard economics cannot explain or leave out are far more consequential than those 'resolved' through formal demonstration" (Hu, 1997). More importantly, macro-policy theories are generally based on the specific circumstances of individual countries and do not always apply generally.

3. China's Proactive Fiscal Policy

Over the course of the last several decades, China has adopted a proactive fiscal policy. Although this policy originated from Keynesian macro-fiscal policy, it has led to a paradigm shift in practice and a new approach in China's macro fiscal policy.

3.1 The Two Rounds of Proactive Fiscal Policy

The "proactive fiscal policy" is an innovation in China's macro-economic governance. The concept did not exist in Western macro-fiscal policy theories, and similar to it was the expansionary fiscal policy. Despite advocating aggregate expansion and having similarities with the aforementioned Western expansionary fiscal policies, China's proactive fiscal policy has distinctive implications and effects. It combines aggregate expansion with structural adjustment, and demand regulation with supply management in order to stabilize economic growth while expanding aggregate demand and solve deep-seated contradictions in the country's economic and social development.

China has implemented two different rounds of its proactive fiscal policy. The first round was carried out in 1998 in response to new developments in China's economy. At that time China's consumer market had turned into a buyer's market with over 95% of commodities in oversupply, putting an end to the previous shortage economy. As a result of decreases in prices and the money supply, inflation gave way to deflation. In August 1997, China's producer price index (PPI) experienced negative growth for the first time ever, and the retail price index and household consumption price index declined in October 1997 and March 1998, respectively. China's exports also tumbled during the Asian Financial Crisis of 1997. In response, the then State Development Planning Commission released the *Economic Performance in the First Half of the Year and Suggestions on Economic Work in the Second Half of the Year* in July 1998, which introduced a proactive fiscal policy to boost demand. By the end of 2004, the Central Economic Work Conference had adopted a "prudent fiscal policy" and "prudent monetary policy", ending the first

中国知网 https://www.cnki.net

round of proactive fiscal policy. With this first round, the government issued additional treasury bonds, revoked government funds and charges involving enterprises, raised export rebates, and increased public spending.

The second round of proactive fiscal policy began in 2008 when China's economy faced both structural and cyclical headwinds. The US subprime mortgage crisis triggered an international financial crisis in September 2008 that caused severe shocks to global financial markets. Recession took hold in major advanced economies, and the situation was grim for China's economy as well. Imports and exports plunged, taking a toll on fixed asset investment and industrial production. In this context, China unveiled a proactive fiscal policy in the second half of 2008 that included massive reductions in taxes and fees, increases in the government deficit, debt, and investment, and adjustment to its fiscal spending structure. Compared to the first round, the second round of proactive fiscal policy employed more diverse, vigorous, and targeted instruments and measures. For instance, the first round of proactive fiscal policy did not rely on tax cuts as a demand stimulus given the tax system that was fraught with problems. In the second round of proactive fiscal policy, however, massive reductions in tax and fees pushed down the overall tax burden (as shown in Figure 2). We can divide China's fiscal policy since 2008 into two stages.

Stage 1: Stimulus of domestic demand during the global financial crisis (2008-2012).

Prior to the eruption of the global financial crisis in 2008, the Chinese government was preoccupied with preventing economic overheating and preventing structural inflation from developing into rampant inflation. Given the complex domestic and international situations in 2008, this priority gave way to a new round of proactive fiscal policy to "maintain rapid economic development and curb excessive price hikes". Subsequently, the government called for "ensuring growth and expanding domestic demand" and initiated a new round of fiscal policy. The Central Economic Work Conference in December 2008 identified the expansion of domestic demand as a fundamental solution to maintaining economic growth. In this stage, China's fiscal policy focused on raising public spending and implementing structural tax cuts. In raising public spending, the government subsidized farmers and mid- and low-income urban residents in an attempt to improve public welfare and support innovation. Structural tax cut was carried out through reforms in VAT, personal income tax, and consumption tax. For instance, China implemented the nationwide production to consumption VAT reform in 2009, introduced the business tax to VAT reform in January 2012, and raised the personal income tax deduction from 2,000 yuan to 3,500 yuan in 2011.

Stage 2: All-round initiatives for both income and spending focused on supply-side structural reforms and "high-quality" development (2012-present).

Since the 18th CPC National Congress, China has introduced a succession of socioeconomic initiatives. According to these important initiatives and evolving economic conditions, China has further optimized and adjusted its fiscal policy to stabilize economic growth and promote "high-quality" economic development. This proactive fiscal policy has developed many new traits. For instance, it shifted priorities from domestic demand to a combination of demand and supply-side initiatives. More specifically, this stage can be further divided into three sub-stages.

Sub-stage 1 (2012-2014): A focus on structural adjustment in coordination with the comprehensive deepening of reforms. The Central Economic Work Conference in 2012 called for "giving full play to the role of a proactive fiscal policy in counter-cyclical regulation and structural adjustment". In 2013, the conference demanded that the proactive fiscal policy "should be integrated with the comprehensive deepening of reforms and improve macro-regulation with a reformist spirit, approach, and methodology so as to implement reforms in the process of economic regulation". In implementing this proactive fiscal policy, China carried out macro-regulation through tax reform, expanded pilot programs for "business tax to VAT" reform, optimized its spending structure to control general spending and make use of existing funds, and increased fiscal and tax preferences to facilitate economic restructuring.

中国知网 https://www.cnki.net

Sub-stage 2 (2015-2019): Intensive programs on income and spending in coordination with supply-side structural reforms. In light of new situations emerging from China's economic development, the central leadership introduced the concept of the "new normal" for China's economy, and called for supply-side structural reforms. Based on these assessments and initiatives, China stepped up its proactive fiscal policy, placing a greater emphasis on the combination of demand and supply initiatives. First, China doubled down on reductions in taxes and fees to reduce tax burdens for firms and individuals. Furthermore, in rolling out the "business tax to VAT" reform, China streamlined the structure of VAT rates, expanded the scope of small businesses with thin profit margins that were eligible for 50% corporate income tax deductions, relaxed the criteria for entrepreneurial investments, and increased the pre-tax deduction ratio of R&D expenses for SMEs. Steps were also taken to standardize the collection of administrative fees and lower the portion of social security expenses. Second, over the period from 2016 to 2019, China's fiscal deficit ratio stood at 3%, 3%, 2.6%, and 2.8%, sequentially, which far exceeded the deficit levels in the previous substage and maintained the intensity of fiscal spending growth. Third, debt quota management, risk control, swaps, and other debt management measures were undertaken to regulate government indebtedness, increase transparency, and prevent and resolve risks. Fourth, fiscal spending was tightened by reevaluating the government's spending structure and increasing general transfer payments to only certain localities.

Sub-stage 3 (2020 onwards): Policy initiatives to cope with the COVID-19 pandemic. Since 2020, new changes and traits have emerged in China's proactive fiscal policy in response to the pandemic. For instance, more vigorous and proactive fiscal initiatives have been implemented. In 2020 alone, China's reductions in taxes and fees exceeded 2.5 trillion yuan with a deficit ratio up from 2.8% in 2019 to 3.6% in 2020. A third round of special treasury bonds were issued with a total face value of one trillion yuan. China also implemented a comprehensive set of policy measures aimed at achieving stability in various aspects such as employment, finance, trade, foreign capital, investment, and expectations. These actions were designed to protect people's livelihoods, market entities, food and energy security, supply chain security, and local government operations. There was more diversity in the choice of policy instruments and greater emphasis on structural adjustment and policy differentiation that focused on sectors, regions, and businesses that suffered the most during the pandemic.

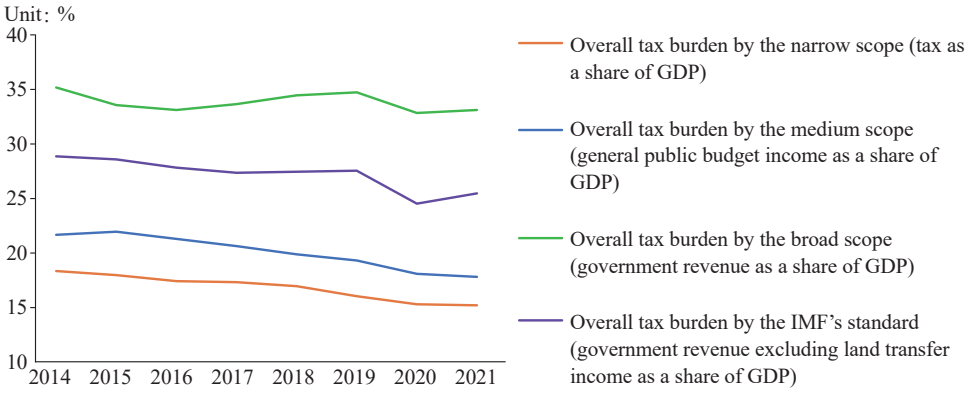

Figure 2: China's Overall Tax Burden as Measured by Different Standards (2014-2021)

Source: *China Statistical Yearbook (2021)* and the website of the Ministry of Finance.

3.2 Evolution and Innovation: The Shift from a Traditional to a New Approach

As previously mentioned, both Keynesian and nonKeynesian macro-fiscal policy aim to restore supply and demand equilibria in order to restore output to its potential growth level. Hence, in this way

中国知网 https://www.cnki.net

fiscal policy can be viewed as a short-term aggregate policy that focuses on consumption, investment, and exports directly. China, however, has shifted towards a proactive fiscal policy in line with its "people-centered" development philosophy and its goals of restoring market supply-demand equilibria not only to reach its economy's potential growth rate but also to increase its future growth potential and overall economic efficiency. This approach can be elaborated in the following four aspects.

3.2.1 Policy objective: A shift from restoring supply-demand equilibria and potential growth rates to an equal emphasis on future potential growth rates

China's proactive fiscal policy is intended to restore supply-demand equilibria and potential growth rate. When initiated in 1998, China's fiscal policy was defined as an expansionary fiscal policy to increase aggregate demand. In the process of this policy implementation, however, attention was also given to the structural determinants of economic development as being equally important with expanding aggregate demand and stabilizing economic growth. "Priority should be given not only to stable economic growth in the current year, but economic sustainability in the future. Weaknesses in the economy should be bolstered to increase economic competitiveness" (Xiang, 2002). The second round of proactive fiscal policy gave more priority to growth potential. In the short run, the priority was to shore up market expectations and profitability, increase economic vibrancy, restore the economy to its potential growth rate, and stabilize economic growth. In the mid- and long-run, China's fiscal policy aimed to increase the capacity for economic growth.

3.2.2 Policy nature: From aggregate demand policy to supply-demand composite policy

China's proactive fiscal policy originated from demand-side policy. Through re-adjustments and optimizations in the implementation process, however, it has become integrated with supply-side initiatives in order to address both aggregate and structural issues. By focusing on both the supply and the demand sides, China's fiscal policy has expanded aggregate demand and improved supply-side operations, thereby resolving the structural problems that have arisen from China's economic development. On the demand side, aggregate demand was expanded by raising government debt and budget deficits, issuing special treasury bonds, increasing fiscal spending, stimulating consumption, and ramping up investment. On the supply side, the government adopted a proactive policy of reductions in taxes and fees together with fiscal spending on priorities such as industrial restructuring and upgrades, employment, SMEs, and supply chain security.

3.2.3 Coordination and use of policy instruments: From uniformity to diversity

In addition to the monetary policy, China's fiscal policy also needs to coordinate with industrial and regional economic policies and social and environmental policies such as healthcare and social security. Thus, fiscal policy not only functions in the economic domain but also in social and environmental spheres. In shoring up economic growth, the Chinese government has broadened fiscal spending from economic development, such as physical infrastructure, to social and environmental programs, such as social security, healthcare, environmental protection, and employment services. Based on this human-centered approach, the government has increased social spending in an attempt to promote people's livelihoods, health, and development, all of which contribute to human capital.

3.2.4 Duration of policy effects: From short-term to a combination of mid- and long-term policies

Keynes ascribed macroeconomic policy to short-term demand management, and in this light fiscal policy is often considered merely over the short-term. In its first round of proactive fiscal policy, China also defined fiscal policy only over the short-term. "Proactive fiscal policy is a special policy during a special period of time. It cannot last for too long or lead to an excessive fiscal expansion, the consequences of which are unbearable for the economy and public finance. From a mid- and long-term

中国知网 https://www.cnki.net

perspective, we must follow a relatively tight fiscal policy in order to maintain fiscal sustainability" (Xiang, 1999). In the beginning, China adopted a proactive fiscal policy as a short-term initiative. With changing conditions, however, the first round of proactive fiscal policy lasted for six years as a combination of short-term, mid-term, and long-term maneuvers[3]. The second round of proactive fiscal policy lasted for 15 years long-term.

4. Chinese and Western Fiscal Policy: Differences in Fiscal Approaches and Methodologies

Differences in Chinese and Western fiscal policy approaches stem from their different fiscal approaches and methodologies.

4.1 Differences in Fiscal Approaches

Various fiscal approaches have stemmed from the functional (instrumental) concept of the nation and the contractual concept of the nation. At the fundamental level, these concepts underpin the differences between the concept of a nation and the concept of public finance, and such differences are primarily reflected in the following two areas.

First, the ownership of public finance. Government is considered by most Western academics to be a market participant that acts on behalf of the population of a country in aggregate country, but in Western economics, government, also as "public agency", together with producers and consumers, compose the "three-sector" economy. Since the 1970s, public finance as a discipline has evolved towards "public economics" and "public-sector economics". This has to do with the narrow research scope of public finance and changes in research methodologies, but it also reflects the development of the three-sector perception of the economy. As a result, the question of "who owns public finance?" is simply answered as "the government owns public finance"; public finance is regarded as a sector separate from corporate (producer) and household (consumer) finances, ignoring a concept of the nation in public finance. This view deviates from the true nature of public finance and isolates public finance from businesses and individuals. A micro-focused view of fiscal policy is necessary, but a broader view of the national economy should be taken to interpret a country's fiscal behaviors, policies, and efficiency.

Second, the productivity of public finance. Many have argued as to whether or not public finance is productive in the sense that it generates economic output since the productivity of public finance comes down to the productivity of the state and the government. For example, in the classical school of fiscal theories, public finance is considered to be completely unproductive. Although Adam Smith agreed that necessary spending for public facilities and civil engineering is beneficial to the society as a whole, he considered as the state itself to be unproductive. However, others have considered state spending to be productive. For instance, Friedrich Liszt of the German historical school commented on the productivity of state spending. In his view, "Certain laws and public facilities influence productivity or consumption in ways of varying intensities" (List, 1983). Moreover, Carl Dietzel even contended that state spending was "outright productive", and according to Wagner, "State finance is a compulsory economy for the acquisition and consumption of physical wealth in the form of money. Such a compulsory economy creates intangible wealth such as public welfare and public interests. Since intangible wealth transferred from physical wealth thus created is essential to the national economic life, the nature of state spending should be productive". Furthermore, in Hugh Dalton's view, "Spending on education and health is, in some sense, more productive than private spending on luxury goods or on new capital goods" (Chōtarō, 1987). He also divided public debt into productive debt and onerous debt.

[3] This is calculated based on the principle of maintaining "robust fiscal and monetary policies" laid out at the Central Economic Work Conference in December 2004. However, China's proactive fiscal policy was not completely withdrawn in the real sense.

中国知网 https://www.cnki.net

Governmental productivity is overlooked, as many Western fiscal theories did not well stick to the productive view, roughly defining the role of fiscal spending as to restore market equilibria. Chinese academics also disagree on the productivity of the public sector. However, we argue that the implementation of China's proactive fiscal policy has revealed a productive aspect of public finance, as reflected in both public goods and "social reproduction" at a broader level. More importantly, infrastructure investment, public welfare spending, and technological incentives have increased China's potential growth rate, elevating the perception and application of fiscal policy to a new level in the eyes of many.

4.2 Methodological Differences

The Chinese approach to public finance is rooted in holistic and organic philosophies. In comparison, the Western approach stems from the individualistic and mechanical concepts. To some extent, the distinctions between Chinese and Western fiscal philosophies stem from these methodological differences.

First, the individualist approach versus the holistic approach. Methodologically, China's fiscal policy embodies its "people-centered", holistic approach, as opposed to individualism. The "holistic approach" referred to in this paper also differs from collectivism. Following the "people first" principle, China's proactive fiscal policy is designed to promote people's interests and personal development. Individualism is a methodological foundation of Western economics. Despite the existence of "ethical politicians" assumptions in the analysis of government behaviors, mainstream Western fiscal theories remain rooted in the individualist methodology. Economists from the public choice school such as James McGill Buchanan Jr. have applied the "economic man" assumption in the public sphere in order to investigate the behaviors of public-sector entities, and this adherence to individualism overcomes the seeming misalignment of assumptions for the public and private sectors. Western macro-fiscal policy inherited the individualistic methodology and applied it to explain fiscal behaviors and phenomena from an individualistic (government) standpoint, hence losing its explanatory power. We contend that the role of government and fiscal policy should be interpreted in the context of a nation and society as a complex community from a holistic perspective. As Aristotle said, "the whole exceeds the sum of its parts". The relationship between the whole and its parts is also elaborated in *yin* and *yang* theory and the concept of "man and heaven as one" in traditional Chinese philosophies. In this light, we argue that public finance is for the country. It represents the basic cost for the existence of a community and the development of a nation. The role and space of fiscal policy should thus be interpreted in the lens of national development rather than from the sole perspective of government finance, and this holistic approach finds expression in China's proactive fiscal policy.

The holistic perspective offers a better explanation of Chinese fiscal policy's role in increasing the potential growth rate, policy efficiency, and the security of the government's deficit and debt. As an economic and political activity, fiscal spending requires a delicate cost-benefit balance. That is, fiscal programs must fulfill expected targets at the lowest cost, yet fiscal efficiency is far from enough. What matters is to achieve economic and social development in the most efficient manner possible. Efficiency for a part at the expense of efficiency for the whole is not real efficiency.

Second, the mechanical approach versus the organic approach. The demand-side approach is a pillar of Keynesian macro-policy. Specifically, fiscal policy is employed to expand demand and compensate for a lack of market demand so as to restore market equilibria. This approach, along with the underlying concept of aggregate demand, is a manifestation of the mechanical approach to fiscal policy. China's proactive fiscal policy in contrast embodies the ideas of the organic approach. Human society is an organic system, in which economic and fiscal activities are interconnected. The mechanical approach cuts apart the economic relations among the nation, government and other market entities, leading to a superficial interpretation of the role of public finance and fiscal policy. In the history of Western public finance, however, some scholars have investigated fiscal theories in terms of an organic society.

中国知网 https://www.cnki.net

One example is Albert Schäffle's socio-economic theory of public finance, although this sociological standpoint fell out of favor in mainstream Western macro-fiscal policies. Since we have argued that public finance belongs to the community (state) and represents the basic cost for a country's subsistence and development, we further argue that it is necessary to bring public finance into the organic context of national development and interpret the role, space, and methods of public finance in the lens of this organic system. Analysis of public finance from the view of government finance is therefore far from sufficient. With an equal emphasis on both demand and supply management China's proactive fiscal policy is designed to enhance its performance as an organic system.

5. China's New Fiscal Paradigm: Revisiting the Basic Concepts

Despite a recent shift in China's approach to fiscal policy, it takes time for a new policy paradigm to take shape. Hence, it is necessary to revisit a few basic concepts of China's proactive fiscal policy.

5.1 Nature and Reasonable Levels of Fiscal Deficits

The problem of fiscal deficits and government debt comes down to the equilibrium between growth and risk. Proper interpretation and application of fiscal deficit policy is a key determinant of a fiscal policy's effects. So-called "deficit aversion" has theoretical roots in the need for balanced budgets and other realistic considerations, though the spread of the Keynesian tradition and the development of the functional public finance theory have served to cast away fears about fiscal deficits. However, the reasonableness and level of safety inherent to fiscal deficits remain the focus of public attention. Much of academia has taken the EU's deficit alert line of 3% to indicate the point, beyond which a fiscal crisis is likely to occur. In fact, this alert line is the result of political negotiations among EU member states to enhance fiscal discipline based on their single currency system. In practice, other Western countries are not strictly confined to this alert line.

We contend it takes a holistic view of national economic performance to determine the reasonableness and safety of a fiscal deficit. Fiscal deficits should be measured not only by their absolute amounts but using multiple criteria. First, the nature of deficits needs a closer inspection. For example, China has a much safer fiscal deficit compared to countries in Europe and North America because China's fiscal deficit is used to finance what it deems to be productive and constructive projects, as opposed to consumption. China's fiscal deficit stems from spending on socio-economic development and reductions in taxes and fees. By expanding domestic consumption and facilitating industrial restructuring and structural reforms, these fiscal programs have increased capital formation and economic growth potential. In the case of some countries in Europe and North America, fiscal deficits are similarly driven by consumption and welfare spending but not by structural reforms, and they contribute to demand growth but do little to raise the potential growth rate. Fiscal deficits do not present much of a problem if they lead to an increase in the potential growth rate and tax base. Compared with its the absolute amount, the purpose of a fiscal deficit is also important relevant.

Furthermore, whether or not deficit spending will help restore market equilibria and raise the potential growth rate also depends on evolving economic conditions. Hence we would argue that the "reasonable" amount of a fiscal deficit needs to be calibrated in light of the employment rate, the distance between actual and potential growth rates, and aggregate demand. Despite the possible positive effects of a fiscal deficit, however, we advise policymakers to maintain a "proper" growth rate of fiscal deficits and to prioritize spending programs. There should be more coordination between fiscal and other policies to avoid potential adverse factors and fiscal risks.

5.2 The Nature, Role, and Risk Assessment of Government Debt

Excessive government debt is risky. Fiscal policymaking thus requires a clear picture of the nature, role, and risk of government debt. Despite its similarities with corporate and private debt, government

中国知网 https://www.cnki.net

debt is linked to its sovereign currency, which gives it some special attributes of interest.

China's new rationale for government debt suggests that government debt is not only an essential instrument for managing demand and restoring market equilibria but also an important means to shore up the potential growth rate. Due to differences over time in the various socio-economic environments of interest, academics have reached inconsistent conclusions about the role of government debt. Some have found government debt to be harmful, and others have disagreed. As a result, policymakers can find support both for raising and subduing public debt. From the individualistic and mechanical perspective, academics describe government debt as "liabilities of the government sector". They perceive government debt and debt risk from the standpoint of a government's ability to repay. In Western countries, the private sector makes up the lion's share of the economy, and taxation is a major source of government revenue. As such, debt risk is generally measured by such indicators as debt ratio (debt balance as a share of GDP) and fiscal debt dependence. It makes sense for countries with limited state economic resources to measure debt security by flow indicators such as GDP. However, it is unreasonable to compare a stock indicator to a flow indicator for China given the dominance of state-controlled assets. Still less should the 60% debt ratio be adopted as an alert line of government debt to guide policymaking.

The space and effects of fiscal policy for a large country are incomparable to those of a small one. As such, there is no one-size-fits-all fiscal policy for all countries. The same is true for government debt. As a large and populous developing nation, China fits into the characteristics of the "large country model". In our view, we should therefore interpret the role of government debt in the context of economic development. Whether government debt plays a positive or negative role depends on an economy's level of development and the use of debt funds. Debt risk is manageable as long as debt funds help the economy reach its potential growth rate. According to China's *Budget Law*, borrowed funds may only be used for public-interest capital spending, and cannot be used for current spending. Western fiscal debt theories about the "conversion into nonproduction cost", "deferred tax payments" and "crowding-out" are thus not relevant to China. However, China still faces the problem of inefficient use of certain debt funds due to gaps in the implementation of the *Budget Law* at the local level.

In measuring government debt risk, we would argue that governments must look at the nature of the issue instead of following the criteria and alert lines based on the conventional wisdom. The risk and security of Chinese government debt should be measured by a string of criteria for economic development beyond the concept of mere public finance, including the development stage of a country, use of debt capital, home currency liabilities, debt interest, asset status, and renminbi internationalization. Government debt is not much of a problem as long as nominal GDP growth exceeds the interest rate of government liabilities. Another indicator is the use of debt capital. Debt ratio is safe as long as debt funds are invested to enhance economic growth and to promote healthy macroeconomic performance. In addition, debt interest rates and fiscal revenue growth rate are also important. Government debt is sustainable if debt interest and fiscal revenue increase by the same proportion or growth in debt interest slightly exceeds the growth rate of fiscal revenue in the case of economic growth. Furthermore, the level of state assets and resources also plays a role. Similar to the nature of its fiscal deficit, China's government debt is used to create and acquire assets. Though some assets are income-generating, others are not, but even low-yield assets can appreciate in value, especially if improvements are made in productivity and standards of living. Moreover, government debt should be considered in light of assets and changes in the balance sheet when measuring its security. Government debt security is not much of a concern as long as economic growth stays at a reasonable level.

However, we stress that treasury bond is not equivalent to local debt in its nature. Compared to local debt, treasury bond is less costly and tends to make more efficient use of capital. It is also advantageous in terms of reducing market risk and spurring capital market development. Therefore, the risks of treasury bond and local debt should be measured differently and in a case-by-case manner. The effectiveness of debt management, fiscal efficiency, and debt security all hinge upon the structure of government debt.

中国知网 https://www.cnki.net

Additionally, we argue that it is not advisable to adopt a radical, campaign-style approach to government debt management, especially to debt reduction. Instead, China should strive to improve the economic ecosystem and economic development as a solution to the debt problem through the adjustment of debt structure. Given the disparities in local resources, it is essential to follow a case-by-case approach in the management of local government debt. Due to the nature of debt-financed assets, the government has a range of options for the disposal of existing liabilities, including asset sales, asset swaps, equity swaps, and asset securitization. In particular, China should make use of new instruments such as REITs and explore new approaches for market-based debt reduction.

5.3 The Space and Effects of Reductions in Taxes and Fees

In macro policymaking, reductions in taxes and fees are known to have demand management and supply management effects that contribute to economic growth stability and upgrades in industrial structure. In the broader context of national economic performance, reductions in taxes and fees not only reduce the tax burden on firms and households but also represent a shift in the cost of national economic operations. They have an impact on the quality of economic operation and the cost of state governance. It takes a holistic and systematic approach to explain the space and effects of reductions in taxes and fees with implications beyond the tax burden, however.

Effective policymaking to cut taxes and fees must take into account both the constraints of the tax and fee system to corporate development and the policy effects and costs in various economic conditions. The effects of reductions in taxes and fees vary across macroeconomic conditions and corporate circumstances. Such reductions, together with other forms of macroeconomic regulation, are *ad hoc* initiatives in light of current situations. In the early stages of economic deceleration, reductions in taxes and fees are necessary to help small and medium-sized enterprises (SMEs) cope with excessive tax burdens, operational difficulties, and a lack of dynamism. In a protracted economic slump, however, the lack of demand presents an existential challenge to SMEs. At this moment, reductions in taxes and fees become less effective. In considering whether to lower taxes and fees, we advise policymakers to weigh the costs and benefits, the overall impact on national economic development, and the effects on firms and households under various economic conditions.

There are four considerations in evaluating the amount of room by which to cut taxes and fees. First, the level of macro tax burden should be assessed and compared on horizontal and vertical dimensions according to small, medium, and broad standards, as well as the IMF standard, based on the Chinese economy's current development stage. Second, the levels of public service, corporate profit, and household disposable income should be taken into account as these reflect the overall distribution pattern. Third, the fairness of the tax burden should be considered since reductions in taxes and fees have both economic and social significance under China's vision to achieve common prosperity and income equality. In addition to lowering taxpayers' burdens, consideration must also be given to the fairness of the tax burden's structure. In the case where the structure of a tax burden is unreasonable, there is obviously space for reductions in taxes and fees in the form of tax system fairness optimization. Fourth, reductions in taxes and fees should be considered in relation to institutional reforms, the conditions of public economic resources, and the efficiency of fiscal resource allocation. If there is inefficiency and waste in the use of fiscal resources, it is theoretically possible to make room for reductions in taxes and fees by means of efficiency improvements. Space for reductions in taxes and fees can therefore be broadened by reforming the social security system, fiscal policy, and business incentives based on the need to optimize government functions, promote common prosperity, and create a unified national market.

5.4 Methods and Priorities for Demand Management

Demand management is a major priority of macro-fiscal policy. According to Keynesianism, it is an important instrument to manage short-term supply-demand disequilibria and to shore up economic

中国知网 https://www.cnki.net

growth. Despite the fact that this framework is intended to address short-term imbalances, it does not establish an inherent causal relationship with economic growth. Differences between Keynesian and other policy rationales are chiefly manifested in the perceptions of the relationship between investment and consumption, as well as the direction and method of investment. Investment determines not only the speed and quality of current economic growth, but future development potential. Although investment creates immediate demand according to Keynesianism, it also generates future growth potential and increases future supply. Under China's new fiscal approach, investment provides a solution to achieve both goals.

The extent to which potential growth may increase is dependent on the direction and efficiency of investment, i.e. the effective level of investment, which is subject to the conditions of government and corporate investments. Government-funded infrastructure investment is a priority of government demand management, and infrastructure is the foundation for a country's economic development, strength, and competitiveness. Infrastructure investment plays an important role in promoting corporate investment and "high-quality" development as well. Moreover, it also helps increase national economic efficiency and development potential and encourage corporate investment. In addition to the expansion of aggregate demand, infrastructure investment also contributes to future economic efficiency and livelihoods, reflecting the holistic and systematic nature of the economy and the productive nature of public finance. In our view China's rapid economic development and rising living standards cannot be achieved without public finance.

China's infrastructure is far from excessive, however. In fact, the lack of infrastructure represents a barrier to the improvement of economic efficiency and living standards. Further investment in infrastructure is thus necessary to address China's discrepancy between people's growing needs for a better life and unbalanced and inadequate development. In China's macro-economic policymaking, we here aim to dispel the misperceptions about "excessive" infrastructure projects that "repeat the old path" and "contradict with high-quality development". We also contend that it is fallacious to assert that "investment space is running low" and "infrastructure spending is wasteful". Instead, we believe China's current priority should be to invest more in infrastructure, not less. When it comes to corporate development and industrial upgrade, the role of investment is also pivotal to technological progress. Without investment, there would be no fundamental impetus for technological progress.

Consumption is the ultimate goal of production, and although consumption drives economic growth, it also determines the quality of economic circulation. Insufficient consumer demand affects the quality of economic circulation and impedes economic operations. In general, consumer demand is subject to spending power and willingness to pay. Spending power is linked to household disposable income, and willingness to pay is associated with social security, and the level of public services, especially healthcare, pension, housing, and childcare. Countries are faced with different constraints to consumption over time as well, and in stimulating consumer demand, their priorities also change with time. Thus the focus and methods with which fiscal policy is adopted to increase consumer demand change dynamically.

In addition, more investment in the economy can spur consumer demand and improve people's standards of living. Investment creates demand in the short run and supply in the long run. Investment is thus essential to promoting economic growth and jump-starting lagging consumption.

5.5 The Cost and Efficiency of Fiscal Policy

We now argue that the cost and efficiency of fiscal policy should be investigated in the context of national economic performance and allocation of fiscal resources. The cost of fiscal policy includes direct costs from the consumption of fiscal resources and indirect costs from the negative impact on the economy, such as crowding-out and interference with market operations. The cost and efficiency of fiscal policy are subject to policy choice and involve the distribution of fiscal resources as well. China should thus measure policy effects on macroeconomic operations in order to decide whether or not to implement

中国知网 https://www.cnki.net

fiscal policy regulation and determine the intensity of policy enforcement. Furthermore, the consumption of fiscal resources and the effects achieved should be measured in order to support decision-making on the methods and instruments of policy regulation. The effects of fiscal policy instruments vary across different stages and conditions. We therefore advise policymakers to make flexible use of fiscal policy instruments according to evolving macroeconomic conditions. Adherence to a certain policy regardless of changing conditions would lead to poor outcomes. In order to optimize its fiscal policy, we suggest that China use fiscal instruments such as reductions in taxes and fees and the distribution of government debt funds between central and local governments according to China's economic structure, governance system, and evolving macroeconomic conditions.

A policy's intensity and the method and timing of its implementation also affect policy costs and effectiveness. Policy intensity should be compatible with the overall size of the economy; expected regulatory effects will fall short if policy initiatives are too weak. As far as the method of policy implementation is concerned, we advise policymakers to avoid the "bit-by-bit" regulatory approach[4]. They should instead take resolute and strong fiscal policy initiatives according to changing macroeconomic conditions. This can help to prevent wild swings in the economy, conserve fiscal resources, and increase policy efficiency. If resources are underutilized and the joblessness rate is high, there is not much concern for inflation and excessive policy interventions since economic overheating is far from a problem. Policy deliberation and implementation must be swift because protracted policy implementation becomes more costly and less potent. Over time, regulatory actions and expectations tend to wane. If the process of policy deliberation takes too long, public expectations could be raised to an unreasonable and irrational level. As a result, the anticipated policy intensity could exceed the appropriate intensity necessary for macro-regulation. Once a long-deliberated policy is announced, investor and corporate confidence could be dampened due to higher expectations. Hesitation of businesses to invest and expand capacity would thus compromise policy effects.

6. Concluding Remarks: Priorities for a Forward-Looking Proactive Fiscal Policy

The 20th CPC National Congress has identified the mission of the CPC for the new era. It has laid out overarching strategic arrangements for building a modern socialist nation in all respects, in which "high-quality" development is a top priority, and maintaining medium-high economic growth rates is essential to accomplishing this mission. Only with medium-high growth rates will China be able to improve the quality of economic development and promote technological and industrial structure upgrades.

Despite historic transformations in its economic strength, China still lags behind developed countries in terms of GDP per capita and capital stock per capita (as illustrated in Figure 3). In 2021, for instance, China's GDP per capita was roughly equivalent to 17.9%, 24.3%, and 31.4%[5] the levels of the United States, Germany, and Japan, respectively, and China's capital stock per capita measured by comparable price was equivalent to the levels of Japan and Germany in the 1970s and 1980s; gap in total factor productivity (TFP) was also significant. Judging by the reality, we contend that China does now have the right conditions and the potential to maintain medium-high growth rates. Its proactive fiscal policy is intended to maintain stable economic growth, increase market and economic dynamism, enhance future growth potential, and promote "high-quality" development to assist the realization of China's second centennial goal.

[4] The "bit by bit" regulation approach means gradual and incremental policy releases to regulate the economy. Since each regulatory move is too small to have more than a limited effect on market expectations, the regulatory effects are negligible, wasting fiscal resources.

[5] Calculated by the authors based on data published by the World Bank.

中国知网 https://www.cnki.net

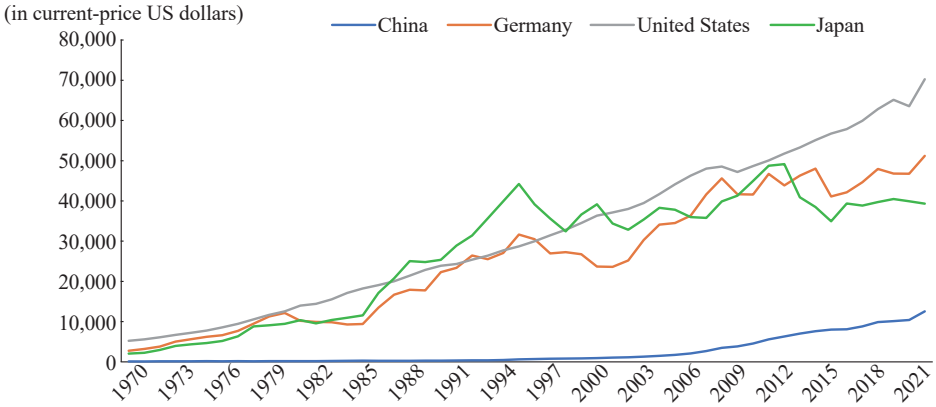

Figure 3: Changes in GDP Per Capita of China, the United States, Germany, and Japan (1970-2021)

Source: The World Bank.

According to the 20th CPC National Congress, "China should strive to promote 'high-quality' development… and integrate the strategy of expanding domestic consumption with the deepening of supply-side structural reforms". Hence, we argue that it is imperative for China to continue to improve policy measures based on its proactive fiscal policy and to balance the relationships between government and the market, central and local governments, and investment and consumption. With a focus on aggregate demand management, we suggest China combine the adjustment of aggregate demand with the improvement of supply and growth potential to overcome deep-seated constraints to economic growth. Finally, we advise policymakers to adopt appropriate policy instruments according to the traits of China's governance system and evolving macroeconomic conditions to achieve regulatory targets in the most cost-effective manner possible.

References:

Chotaro S. A History of European and American Fiscal Philosophies[M]. Translated by Zhang Chun. Beijing: China Financial & Economic Publishing House, 1987.

Constancio V. The Return of Fiscal Policy and the Euro Area Fiscal Rule[J]. Comparative Economic Studies, 2020, 62(3):358-372.

Heilbroner R., Bernstein P. The Debt and the Deficit[M]. Translated by Zhou Mozhi. Beijing: China Economic Publishing House, 1993.

Hu D. A Realistic Perspective of Contemporary Western Economic Theories[J]. Economic Perspectives, 1997, (11): 47-50+80..

Liszt F. The National System of Political Economy[M]. Translated by Chen Wanxu. Beijing: The Commercial Press, 1983.

Mao C. L., Zhuang X. Y. History of Western Fiscal Philosophies[M]. Shanghai: Fudan University Press, 2010.

Snowdon B., Vane H. R., Wynarczyk P. A Modern Guide to Macroeconomics: An Introduction to Competing Schools of Thought[M]. Translated by Su Jian et al. Beijing: The Commercial Press, 1998.

Snowdon B., Vane H. R. Modern Macroeconomics: Its Origins, Development and Current State[M]. Translated by She Jiangtao, Wei Wei and Zhang Fenglei. Nanjing: Jiangsu People's Publishing House, 2019.

Xiang H. C. Continuing to Implement a Proactive Fiscal Policy to Ensure Stable Economic Growth[J]. The People's Forum, 1999, (05): 4-7.

Xiang H. C. Proactive Fiscal Policy: Successful Practices of Macroeconomic Regulation[J]. Qiushi Journal, 2002, (06): 10-13.

中国知网 https://www.cnki.net