



On the Construction of “Sunny Finance” Frame in China

Xiaohui Xu

Shenyang University, Shenyang 110044, China

E-mail: xxhui9@126.com

Guangyu Wang

Shenyang University, Shenyang 110044, China

E-mail: wgy3282008@163.com

Abstract

“Sunny finance” is an inevitable requirement of public finance. Its essence is lawful financing, scientific financing, and democratic financing. China has already gained lots of valuable experiences in the construction of “sunny finance”. However, it deserves deepening researches on how to construct the frame of “sunny finance” and make it be systematic and institutional. In this paper, the author discusses this issue.

Keywords: Public finance, Sunny finance, Thoughts

1. Necessity of the construction of “sunny finance”

The essence of “sunny finance” is lawful financing, scientific financing, and democratic financing. It needs perfect legal system, scientific management, and democratic supervision. In the theoretical aspect, “sunny finance” is a precondition for actualizing the public finance, carrying out the scientific development view, and constructing the harmonious society. In the technical aspect, “sunny finance” can help to make finance performance evaluation.

1.1 “Sunny finance” is a precondition for actualizing the public finance

Public finance is the financial operation mode under the market economy condition. In order to satisfy social public needs and supply public goods and services, the financial revenue collected by political power will be used to pay for government’s public activities. Public finance aims at guaranteeing the normal operation of state apparatuses, insure the safety of the state, maintaining social orders, and actualizing the coordinative development of society and economy. In other words, the primary function of public finance is to satisfy social public needs, legal regulation, and macro control. To make up the market malfunction by supplying public goods and services embodies the value of public finance. These public goods and services are non-profitable and not supplied by market. All individuals can benefit from public goods and services equally, namely “equalization of public services”. The public benefits embodied by public goods and services are based on the common benefits of individual ones, being supervised by electorates. Here “sunny finance” becomes a must. Therefore, “sunny finance” is a precondition for actualizing public finance.

1.2 “Sunny finance” is a precondition for carrying out the scientific development view

Scientific development view is a human-oriented, comprehensive, coordinative, and sustainable development view. To be human-oriented is the core and essence of scientific development view. “To be human-oriented is to give absolute priority to people’s benefits in all works, meeting people’s diversified needs continuously, and driving people’s all-round development.” Without public and transparent finance, the public has no chance to know government’s financial allocation activities and can not advance suggestions, advices, and supervisions. To be human-oriented becomes an empty word. Therefore, “sunny finance” is a precondition for carrying out scientific development view.

1.3 “Sunny finance” is a precondition for constructing the harmonious society

The essential connotation of harmonious society is civilization, fairness, justness, common prosperity, share, stability, orders, and solidarity. The core is social fairness and justness. Harmonious benefits are the most primary issue of harmonious society, which are firstly embodied in benefits balance. “Sunny finance” is to promulgate the allocation process of government’s public resources. The public’s participation and supervision can reduce “black box operation”. Meanwhile, it is a benefit balancing process among different social classes, groups, and departments, as well as a process of harmonizing benefits. Therefore, “sunny finance” is a precondition for constructing the harmonious society.

1.4 “Sunny finance” is a precondition for evaluating financial performance

Recently, many countries began to reform public services based on market standards and make performance evaluation

on government finance, what must depend on the scientific classification of government expenses and transparent expenses, namely “sunny finance”. China’s budget income and expenditure in 2007 is arranged by new subjects, taking government’s expenses as the core and making classification, including class, amount, and item, which serves as the base for evaluating the government efficiency.

2. Principles, key, and breakthrough of constructing “sunny finance” frame

2.1 Principles of constructing “sunny finance” frame

(1) Law

The precondition for constructing “sunny finance” is to build “sunny government”. Finance is merely one of department of government’s all departments. The publicity of government finance must be legal. It includes two aspects: firstly, “sunny finance” does not mean to make government’s all resource allocation activities open to the public. Contents concerning state safety and national defense are not allowed to be promulgated. In fact, many countries constitute the law of keeping secret that regulates the contents allowed to be open to the public. China is not an exception. As we promulgate government’s financial expenditure, we must obey the rules of law. Secondly, there are still no unified legal regulations for norms, orders, principles, contents, and procedures in actualizing “sunny finance” in China. Concerning how to construct “sunny finance”, local governments have different understandings considering their different development levels. Some local governments make lots of exploration. Take Liaoning province for example. In recent years, Liaoning provincial government promulgates many regulations on management, concerning scientific and democratic decision, budgeting, centralized state treasury receipt and payment, government procurement, non-taxation income management, and government debt management. In Liaoning at the provincial level, except directly-controlled departments, transportation, education, prison and re-education systems, all departments in budgeting actualize centralized state treasury receipt and payment. Fourteen cities also actualize centralized state treasury receipt and payment. Seventeen counties are in the process of turning centralized accounting into centralized state treasury receipt and payment. Liaoning government actualizes the separation of government procurement’s management departments and centralized procurement departments, empowering them with different functions. In July, 2007, the provincial procurement center founded the “Liaoning Government Procurement Association” and set up an expert base for government procurement evaluation. The central government should summarize the practices of “sunny finance” in different regions, absorb foreign advanced experiences in this field, and constitute “directive outline suggestions for actualizing ‘sunny finance’ in China” as soon as possible according to China’s real conditions, making up principles for norms, orders, procedures, and contents in actualizing “sunny finance” in China, driving the progress of “sunny finance” by law.

(2) Efficiency

“Sunny finance” must emphasize efficiency, namely the input-output ratio. In the input aspect, we should notice three problems: firstly, “sunny finance” is costly in many fields. It needs to collect, process, and promulgate amounts of data. Secondly, the publicity of information has to depend on relevant platform, which needs more inputs. Thirdly, the allocation process of government resources is usually based on specialized knowledge and techniques that are hard to understand by common people. Therefore, it may cause a “zero profit” issue. In the output aspect, the initial effect of “sunny finance” may be visible: saving how much money. However, more effects are invisible. “Sunny finance” reflects the idea of democratic financing, legal financing, and scientific financing. It can improve people’s trust in government, what is necessary to construct the harmonious society.

2.2 Key and breakthrough of constructing “sunny finance” frame

(1) The key is to promulgate the standards of government budgeting

Government allocates social resources chiefly by state budgeting. China’s budgeting is in such a condition that “both laymen and makers do not understand or know it clearly”. As the National People’s Congress is examining the budget, they usually can not grasp the budgeting standards exactly due to the principles of “keeping secret” and “returning back after examination”. If not promulgate budgeting standards, the budgeting result is hard to be judged. Therefore, the key of constructing “sunny finance” frame at present is to promulgate the budgeting standards.

(2) The breakthrough is to apply “sunny finance” to “people’s livelihood finance” firstly

Since 1949, China has reformed its finance system many times. Generally speaking, the reform before 2000 chiefly focuses on the income system, including tax federalism, income tax sharing, and rural taxation. The reform after 2000 mainly concerns the expenditure aspect, including departmental budget, centralized state treasury receipt and payment, government procurement, income and expense. In China the finance system should follow this order in development: “construction finance” ----- “public finance” ----- “people’s livelihood finance”. In 2007 China increases its expenses in social security, employment, education, medical treatment and many other fields concerning people’s livelihood greatly, exceeding the growth rate of GDP during the same period. What the public cares about mostly is people’s

livelihood. Therefore, the breakthrough of “sunny finance” should be people’s livelihood finance naturally. People’s extensive participation completely embodies the advantages of socialism.

3. Thoughts of constructing “sunny finance” frame

3.1 Enhance the fiscal transparency

According to the Manual on Fiscal Transparency (Kopits & Craig, 1998) issued by the International Monetary Fund (IMF), fiscal transparency is to make information concerning government structure and functions, trends of fiscal policies, accounts of public departments, and fiscal prediction open to the public to a great degree. The information should be reliable, detailed, timely, understandable, and comparable. Electorates and financial market can exactly evaluate the condition of government finance and the real cost and income of government activities according to the information. The Manual explains the meanings of fiscal transparency in detail from three aspects: institutional transparency, accounting transparency, and indexes and prediction transparency. D. D. Lassen (2003) thinks that the transparent budgeting procedure has four characteristics: firstly, fewer budgeting files can release more information, which make it easy for the public obtaining and supervising the information; secondly, experiences prove that in the convincing and reliable connections, the possibility of being the key and independent proof can improve its transparency; thirdly, in the budget words are exact and classification is scientific, clear, and definite; fourthly, reduce blind items in budget and stop government’s random interference.

In June, 1999, the “audit report for the implementation of central budget and other financial income and expenses in 1998” issued by the National Audit Office is regarded as the a start that arouses the fiscal transparency issue in China. This report factually releases the severe problems in the implementation of central government budget, such as the serious economic losses caused by false decisions and ineffective management in key national investment projects, wide and severe appropriation of social security capitals, special funds, and materials and funds for disaster relief. For another instance, some enterprises, especially non-banking finance institutions conceal incomes, escape from legal taxes, keep double accounts, found small private coffers, and devour and waste corporate assets as will. Problems are still very serious (Guangshun Li, 2007).

China’ fiscal transparency is low. In 2001, Price Waterhouse Coopers finishes a report for “opacity index”. It investigates 35 countries and regions, grade and rank them according to the opacity indexes in five aspects: corruption, law, financial policy, accounting principle, and government regulation. The score of China’s opacity index is 87, higher than that of Singapore (29) and America (36), whose ranks the lowest class. China is listed as a country with lowest transparency.

In western countries, people generally think that human being is selfish in nature. They must be restrained by something, such as religious belief and institutional constraint (transparency constraint). For a long time, Chinese emphasizes on human being’s subjective initiative too much, what leads to such a result that rule of man surpasses rule of law. Under the market economic condition, China should use institutions to restrict government behaviors. A must for actualizing “sunny finance” is to enhance fiscal transparency.

3.2 Set up the information network platform for “sunny finance”

First of all, promulgate the budgeting information and construct “sunny finance” by “monetary and financial project”, making government financing be scientific, standard, and transparent. We can learn experiences from OECD (Organization of Economic Cooperation and Development) countries, reporting before the budget (three months), yearly, in the middle of the year, in the end of the year, and for the long run. Then, release important information timely, such as GDP growth rate, employment rate, inflation rate, changes and adjustments of budget, government liabilities, financial and non-financial assets, and possible liabilities.

3.3 Perfect the “four in one” fiscal supervision system

The “four in one” fiscal supervision system includes: National People’s Congress (NPC) supervision, financial department supervision, external audit supervision, and social supervision. Firstly, enhance the supervision of NPC’s special budget censorship. The budget censorship includes people from fiscal departments (non-temporary), specialized experts and scholars, and NPC’s internal trained persons. Especially, specialized experts are necessary in the budget censorship, who can improve the power of NPC supervision. Secondly, enhance the independent supervision of audit institutions. Absorb audit departments into NPC field and perfect the audit mechanism of NPC to fiscal budgeting conditions. Thirdly, enhance the supervision of social medium agencies. Employ accounting firms to audit the fiscal capitals. Fourthly, enhance social public supervision. “Sunny finance” needs the extensive participation of the public because: corruption = monopoly + black box operation – participation of the public. Whether the public participates is an important sign for whether the finance is sunny or not.

3.4 Probe into the reform of budget accounting regulations based on the income and expenses classification reform

China’s present budget accounting regulations were issued in 1997 and put into practice in 1998. The regulations are

based on cash basis. However, the cash basis can not reflect the government liabilities that happen currently but still not in cash, what leads to the distortion of government liability information. Meanwhile, the cash basis can cause the distortion of account statements information because the cash basis regards the time of receiving cashes or paying cashes as the accounting document. It is easy to cause the mismatch of rights and duties and lead false government decision. Therefore, for some assets and debts businesses, we can adopt the accrual basis. For the budget paying business, we can still focus on the cash basis. By this way, we can solve the mismatch of duties and effects and avoid the abnormal phenomenon that the former borrows money for projects and the later pays for the debts.

3.5 Explore the payment form of “sunny finance”

We can enlarge the pilot range of official card payment. Official card is a kind of credit card used by workers in budget departments, chiefly for daily official payments and financial reimbursing operations. As a modern tool for payment and settlement, official card is convenient and has high transparency. However, official card can not draw cashes directly. It is only used for daily official payments and financial reimbursing operations. Using official card can effectively help to stop corruptions in official consumption. It has positive effects on improving the transparency of fiscal expenditure. Official card is an effective carrier for extending “sunny finance”.

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