Fiscal Decentralization and Government Responsiveness: The Impact of Fiscal Reform on Local Expenditure Structure In China

by

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Since the 1980’s, China has initiated the “province-managing-county” (PMC) reform as an experiment of fiscal decentralization by granting more fiscal autonomy to county-level governments. Research in the past five decades has not been able to provide a consistent answer to the question of whether decentralization makes government more or less responsive to its citizens. With a sudden change in vertical governmental structure due to the PMC reform, it provided a natural experiment to observe the impact of fiscal decentralization on the composition of local government expenditures. Using a panel data set of 1999-2007 for all county-level governments in Heilongjiang and Jiangxi provinces, which adopted different reform strategies, I employ a difference-in-differences approach to assess the impact of the reform on local spending for economic construction and public services etc. The empirical results of this study will contribute to the literature on fiscal decentralization and have important policy implications for China’s ongoing reforms.

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All are welcome!