

# Public Institution Reform in China from the Perspective of Fiscal Logic

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**Abstract:** The differences between China and the western countries in political and economic systems also lead to the differences in fiscal functions, and public institutions in China is a representative example. Generally, public institutions in China are led by government departments and have strong dependence on fiscal funds, with an obvious official and civilian duality. Public institutions in China can be regarded as a unique financial phenomenon, which requires us to think about the reform of China's public institution from the perspective of the fiscal logic. This paper constructs a fiscal logic model by integrating five influential fiscal paradigms in China, and systematically discusses the logical relations among such elements as public finance, public needs, human community, nation, public goods, public risks and fiscal risks. The human community is the logic starting point of the model, the human community generates public needs and forms nation. Public needs is the logical core of the model and the origin of public finance. The model enriches the connotation of public needs from the two aspects of affording public goods and preventing public risks, and shows the relationship between nation and public finance in China through national governance. According to the model, this paper analyzes the reform of public institutions in China from the two aspects of public needs and national governance. On the one hand, it emphasizes that the reform of public institutions should be based on public needs. The reform of public institutions should stick to the direction of public service. It presents the classification method of public institutions based on public risks, meanwhile it puts forward that the reform should avoid the monopoly risk of public service; On the other hand, the reform of public institutions should reflect national governance. We can better meet the goal of national governance by establishing multi-center public service mode, innovating fiscal supply mode and setting up capital concept.

**Keywords:** Public Institutions, Fiscal Logic, Public Needs, Human Community, Public Goods, Public Risks, National Governance

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## 1. Introduction

The differences between China and the western countries in political and economic systems also lead to the differences in fiscal functions, and public institutions in China is a representative example. According to the official definition, *public institutions refer to social service organizations organized by state organs for the purpose of public welfare or by other organizations using state-owned assets to engage in education, science and technology, culture, health and other activities* (From the interim regulations on the registration and administration of public institutions (Order 252 of the state council in China)). Public institutions were born in the era of planned economy in China. Since the founding of the

People's Republic of China in 1949, the development of social public services has become an important responsibility and function of national finance. With the continuous development of the socialist market economy, the sources of funds for public institutions are becoming more and more diversified, but the fiscal allocation still plays a dominant role in the funds for public institutions.

In western countries, the concept similar to China's public institutions is non-profit organizations. The main difference between China's public institutions and western non-profit organizations lies in their relationship with the government. Generally, public institutions are led by government departments and have strong dependence on fiscal funds, with an obvious official and civilian duality. To some extent, a

public institution is not only an economic unit, but also a special government organization with distinct political and social characteristics. Public institutions in China can be regarded as a unique financial phenomenon, which requires us to think about the reform of China's public institution from the perspective of finance.

With the establishment and continuous improvement of the socialist market economy system, China's public institutions experience several reforms, which achieve remarkable results and have also been exposed with problems [1]. In terms of the depth, breadth and intensity of the reform, they lag far behind the reform of the government and enterprises. China's fiscal academia also studied this issue and put forward countermeasures. Bai Jingming (2016) put forward suggestions on the budget management reform of public institutions from three aspects: clarifying the functional positioning of public institutions, determining the level of budget guarantee, and changing the mode of budget guarantee [2]; Liu Xiaokang (2016) proposed to effectively realize the new round of "socialization" orientation of public institution reform by reunderstanding the role of government in public service delivery and rebuilding the public service management system [3]; Liu Shangxi (2014) put forward the countermeasures to build the financial security mechanism of public institutions from the aspects of the coordinated development mechanism of compilation and budget management, internal distribution policy system, state-owned assets supervision and management system, and social insurance policies [4]. To sum up, it can be seen that the current analysis and thinking of practical problems in China's fiscal academia are mostly based on the perspectives of fiscal system, policy, guarantee, supervision and state-owned assets management, etc., with strong practical significance and relatively weak theoretical basis, which also reflects the fact that China's fiscal theory research lags behind the fiscal practice.

Since the 1980s, China has begun to actively learn and introduce the theory of western public finance, which has gradually become the mainstream theory of China's finance. Chinese scholars have also critically inherited and developed the theory of western public finance based on China's reality, and put forward various fiscal paradigms with great

theoretical value and enlightening significance. This paper analyzes five fiscal paradigms which have great influence on China today, constructs a fiscal logic model based on public needs, reflects the latest development of China's fiscal theory, and analyzes the reform of China's public institutions from the two aspects of public needs and national governance by using the logic model.

## 2. The Sorting of the Fiscal Logic and the Model Construction

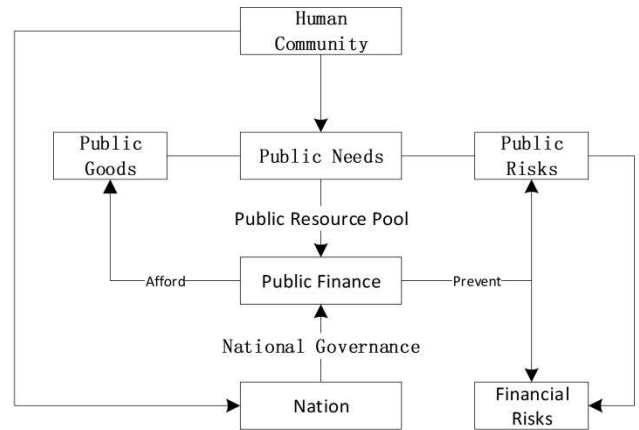


Figure 1. Fiscal logic model based on public needs.

Richard Abel Musgrave once pointed out that in addition to the development of economics, changes in economic and social systems, social thoughts and values are also important factors affecting the development of finance. To some extent, the fiscal logic has national and historical characteristics. To study the fiscal logic of public institution reform, we must first build a fiscal logic model suitable for contemporary China. After sorting and summarizing, this paper selects five influential fiscal paradigms that have strong explanatory power for China's fiscal reality, and the specific contents are shown in table 1.

Table 1. Paradigm overview of fiscal logic in China [5-12].

Logic of the Paradigm	Logic Path	Represents Scholar
“Neo-public Finance” Logic	logic relationship between government and market (market platform view, government participation view) -- common needs of society -- maximization of public value under market rules (market rule view, public values)	Li Junsheng Yao Dongmin (2017)
“Collective Goods” Logic	public supply of collective goods -- three fiscal fields (common community, common resource pool, and principle-agent relations) -- collective goods (collective action in public finance) -- all kinds of fiscal arrangements and fiscal affairs	Wang Yongjun Qiao Yanjun (2017)
“Public Risk” Logic	preventing public risk -- fiscal function -- fiscal measures -- preventing fiscal risk	Liu Shangxi (1999)
“Humanism” Logic	the market, enterprises and social organizations are all different forms of transactions between people -- taking human as the object of analysis and taking institutional analysis as the framework -- fiscal functions under the Humanistic paradigm	Liu Ye (2018)
“National Governance” Logic	national governance activities -- common needs of society -- definition of fiscal functions -- scale and structure of fiscal expenditure -- scale and form of fiscal revenue -- balance of fiscal revenue and expenditure -- management of fiscal revenue and expenditure -- arrangement of fiscal system -- layout of fiscal policies	Gao Peiyong (2015)

The five fiscal paradigms mentioned above have different emphases, but there are numerous links between them, and

they contain the inherent genetic “public needs”. Through public needs, all paradigms can be organically integrated to

build a fiscal logic model, as shown in figure 1<sup>1</sup>.

### 2.1. Logic Starting Point: Human Community

Human community, on the one hand, produces the needs for social public affairs consumption, that is, public needs; On the other hand, when the human community develops to a certain stage, it forms the “illusory community” -- nation. Human community works together on public finance through public needs and nation. Public needs use public resource pool to afford public goods. Meanwhile, finance draws, spends and manages public resources through the political power of a country, it shows that the public finance is the product of economics and politics, It would be wrong to simply emphasize the economic or political attributes of finance. Ideally, the goals of national finance and public needs should be aligned.

### 2.2. Logic Core: Public Needs

Public needs include both the needs to affording public goods and the needs to preventing public risks. Public goods is the necessary means of preventing public risks, and public risks is also the necessary reason of affording public goods. Both of them constitute public needs from two sides, and clarify the manifestation of public needs. Public needs requires the conversion of private property into public resources to afford public goods and prevent public risks, and public finance is generated. Public needs are the ultimate source of all fiscal behaviors. Only in the context of the idea and system of meeting public needs can financial behavior be reasonable and legitimate. In addition, from a deep sense, nation itself is a kind of public needs, which can be regarded as a tool to meet public needs with the power of the community due to individual incompetence. It can be seen that public needs have strong relationship with important elements in the model and are the Logic core.

### 2.3. Indispensable Logic Element: Nation

The mainstream fiscal paradigm tends to ignore the role of nation, which in essence eliminates the important influence of national capacity on finance. Public finance is the foundation and important pillar of national governance<sup>2</sup>. It repositions the function of finance and combines finance and national governance closely. The academic circle began to think about the basic theory of finance from the perspective of national governance, which made up the defect that the mainstream fiscal theory ignored the role of the nation. However, it is biased that “national governance” is interpreted as “national distribution<sup>3</sup>” by some scholars. In fact, the concept of

national governance just reflects the transformation of the concept of national management. National governance refers to the negotiation and interaction among government, market, society and citizens while maintaining the leading role of the government. It is a process of the return of national power to social power, not the return of “national distribution”.

The fiscal logic model constructed in this paper starts from the human community. On the one hand, due to public needs, there is a need for public resource pool, which is public finance. Through public finance, the public needs are met by affording public goods and preventing public risks. On the other hand, nation acts on finance in the way of national governance, making public finance become the foundation and important pillar of national governance. Since solving public risks with fiscal resources will lead to fiscal risks, fiscal risks should be prevented at the same time.

## 3. Analysis of Public Institution Reform

The following uses the fiscal logic model to analyze the reform of public institutions. Due to the limited space, this paper focuses on the two aspects of public needs and national governance.

### 3.1. Public Needs

The model points out that public needs is the ultimate source of all fiscal behaviors. As China’s public institutions that mainly relies on fiscal resources, they can be reasonable and legitimate only in the context of the idea and system of meeting public needs. According to the model, we can analyze from two aspects: affording public goods (or services) and preventing public risks.

#### 3.1.1. Sticking to the Direction of Public Services

Public needs is an objective standard to define the functions of public institutions. The functions of public institutions must stand the test of public needs, otherwise it is a waste of public resources. The degree of public needs determines the degree of fiscal responsibility for public institutions. Take education as an example, basic education with a wide range of public needs should be mainly borne by the public finance, while higher education with a part of public needs should be jointly borne by the public finance and the market.

First of all, the service supply of public institutions should more fully meet public needs. On the whole, there is still a shortage of public welfare services in China, and there is still a lot of room for improvement in the coverage and quality of public welfare services. The reform of public institutions should not be downsized, but should be combined with the reform of the administrative and fiscal systems to make them bigger and stronger [13]. Give full play to the functions of public institutions, so that the public needs to be more fully met.

Secondly, the service supply of public institutions should better meet the public needs. The demand preference and satisfaction of the public are very important to public institutions. We should give full play to the power of public

1 To improve the universality of the concept, *public goods* is used instead of *collective goods* in the logic model, which in this paper refers to the products or services that can be consumed or enjoyed by the vast majority of people.

2 From *Decision of the CPC (Communist Party of China) central committee on major issues of comprehensively deepening reform* adopted at the third plenary session of the 18th CPC central committee.

3 The theory of national distribution is one of the most influential fiscal schools in China from the early days of the founding of the People’s Republic of China until the mid-1990s.

supervision, establish a value-oriented performance indicator system based on public needs, truly realize the initial intention of “From the people and for the people”, and ensure that public institutions better meet public needs.

Thirdly, the service supply of public institutions should be more balanced to meet public needs. Public institutions, as the main providers of public services supported by the nation, are the key to equalizing public services. In the reform of public institutions, the relationship between powers and responsibilities should be further clarified, governance methods should be innovated, and service standards should be standardized, so that the public in all regions, industries and at all levels can enjoy roughly equal quality public services, and social equity and justice should be promoted.

**3.1.2. Preventing Public Risks**

By providing public services in the fields of education, health, scientific research and culture, public institutions play an irreplaceable role in preventing public risks, such as the decline of national quality, the slowdown of scientific and

technological progress, public health and social security incidents, etc. In the process of public institution reform, it has important guiding significance to establish the consciousness of public risk prevention.

- i. Classifying reform of public institutions according to the public risk responsibility.

By analyzing the contents and attributes of public risks corresponding to public institutions, we can determine the risk reduction responsibility is borne by the market, by the government, or by both [14]. The specific analysis methods are illustrated with the examples of basic education, higher education, and overseas education (see Table 2), what needs to be explained here is that the market can also participate in risk resolution when the responsibility is borne by the government, but the government cannot shirk the responsibility to the market. By clarifying the responsibility of government expenditure, public risks caused by the absence of public services can be effectively prevented, and the possible fiscal risks caused by the offside of public services can also be prevented.

*Table 2. Public institution reform classification under public risk responsibility (taking education as an example).*

Education Category	Basic Education	Higher Education	Overseas Education
The possible public risks with the absence of government spending	The increase of illiteracy, the decline of labor quality, the decline of national quality, etc	The shortage of senior talents, the low national quality and the slow down of technological progress, etc	None or minimal correlation
Risk Transferability	Non-transferability	Can be partially transferred, such as introducing external talents and encouraging self-learning, etc	
Expenditure Responsibility	Government	Government & Market	Market

- ii. Avoiding the the monopoly risk of public service.

The monopoly of public institutions is reflected in two aspects. On the one hand, public institutions manipulate and monopolize the market by relying on the policy protection provided by the nation, resulting in the decline of service quality or transforming public services into high-priced services in pursuit of economic benefits. On the other hand, a few corrupt people use their power to manage public affairs and turn public services into tools for personal gain [15]. Therefore, the reform of public institutions should establish a competition mechanism, focus on strengthening internal control and supervision and management, truly achieve the separation of government and business, and avoid the emergence of public service monopoly.

**3.2. National Governance**

The model regards nation as an indispensable element, and national governance is an important fiscal logic to follow in the reform of public institutions. With the increasingly strong public demand for public services, higher requirements have been put forward for the national ability to realize public needs. The reform of public institutions must reflect national governance, so as to better meet public needs.

**3.2.1. Establishing a Multi-center Public Service Mode**

National governance requires pluralistic and multi-center governance. Public institutions should not be the only subject in the field of public services, and we will form a diversified

supply model, including government agencies, public institutions, non-governmental organizations and the general public through innovative ideas, system and mechanism. Single-center public service mode should be transformed to multi-center public service mode, and the socialization of public services should be accelerated [16]. To achieve the requirements of multi-center governance, the key lies in liberalizing the financial policy restrictions in the field of public services, establishing a market-based competition mechanism for multiple providers of public services, and fully mobilizing the forces of market entities such as enterprises and non-governmental organizations.

**3.2.2. Innovating the Mode of Fiscal Supply**

For public institutions, it is necessary to realize the transformation of funding method from people-based to things-based, to realize the transformation of direct funding mechanism to competitive funding mechanism, and to realize the transformation of fiscal performance evaluation based on different categories of public institutions. Through a series of fiscal supply reforms, we will bring public institutions into a competitive market environment, give full play to their vitality, and improve their public service efficiency. In addition to public institutions, finance should also provide support to other public service providers and consumers. First, fiscal and tax policies which support various public service providers should be implemented. Second, the government can choose among numerous public service providers through the way of purchasing services. Third, fiscal subsidies can be provided,

including subsidies at both the production and consumer ends, to change hidden subsidies into explicit subsidies. By promoting fair competition of public service providers and fair use of public service, we can improve the efficiency of public service supply.

### 3.2.3. Setting Up the Capital Concept

China's 13th Five-Year Plan emphasizes that the government should strengthen cooperation with social capital and attract social capital to participate in the public service supply mechanism. Absorbing social forces to participate in providing public services is an important means to solve the problem of the financial shortage, it is also the need to break the monopoly of public services and promote national governance reform. The PPP (Public-Private Partnership) may become a normal mode of public service provision in the future, it also poses new challenges to the fiscal management of public institutions in the future. Institution assets are generally regarded as non-operating assets, and the value and cost of public institution assets are often ignored, resulting in the low efficiency of public institution assets. No matter the value goal of institution assets is for-profit or public beneficial, it reflects the cost of fiscal expenditure, and it is necessary to safeguard the rights and interests of state-owned assets. So institution assets should be treated as capital, setting up the capital concept helps to separate public institutions from governments and enhance the autonomy of public institutions. It is helpful to ensure fair competition between state-owned capital and social capital after social capital enters the field of public services, and to improve the supply of public service.

## 4. Conclusion

This paper constructs a fiscal logic model by integrating five influential fiscal paradigms in China. The human community is the logic starting point of the model, on the one hand, the human community generates public needs, on the other hand, it forms nation. Public needs is the logical core of the model and the origin of public finance. The model enriches the connotation of public needs from the two aspects of affording public goods and preventing public risks, and shows the relationship between nation and public finance in China through national governance.

According to the model, this paper analyzes the reform of public institutions in China from the two aspects of public needs and national governance, and makes a beneficial attempt to interpret, forecast and guide China's fiscal practice by using China's fiscal logic. On the one hand, it emphasizes that the reform of public institutions should be based on public needs. The reform of public institutions should stick to the direction of public service. It presents the classification method of public institutions based on public risks, meanwhile it puts forward that the reform should avoid the monopoly risk of public service. On the other hand, the reform of public institutions should reflect national governance. We can better meet the goal of national governance by establishing

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