

# Performance Budgeting in China?

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China's economy is growing faster than any other in modern history—with the rate of economic growth a key performance indicator for government officials. Not surprisingly, university scholars and public finance officials in Guangzhou and Xi'an are studying performance budgeting in the U.S. with an eye toward how it might be implemented "with Chinese characteristics"—a phrase used to refer to activities in which China has unique solutions.

China is starting with a very different set of challenges than we have in the U.S. One is the institutional framework for a modern budget process. We come to the question of performance budgeting with nearly 85 years of experience with executive budgeting under the Budget and Accounting Act of 1921. China is intent on building a modern budget process where none previously existed.

A second challenge is the issue of long-range planning. Prior to the Government Performance and Results Act, the U.S. had no governmentwide performance plan or departmental and agency strategic plans. China, on the other hand, has had a planned economy where all resource allocation decisions were made in the party steering committee's five-year plan.

Another important difference is that in China, important decisions are made outside of the budget process. For example, key capital decisions are made separately by the National Development Reform Commission. Despite recent reforms, off-budget expenditures and revenues continue to be large and unreported. Staffing decisions, which have major spending implications, are made by the State Commission Office of Public Sector Reform with little consultation with budget officials.

China's greatest challenge is its highly decentralized fiscal system, with five levels of government (national, provincial, prefectural, counties and townships). China's national government

only accounts for about 30 percent of total government expenditures. The four sub-national levels of government account for the remaining 70 percent, with the two lowest levels accounting for the greatest share. In addition, the national government lacks effective control over the fiscal relations between provincial and lower level governments—resulting in distinct differences across provinces.

Current reporting of budgets and finances has been criticized for being too general for NPC deputies to be able to effectively scrutinize government's expenditures. A number of steps are under way. The first step is budget categorization. At the moment, areas of expenditure are defined according to the product or service being purchased. Proposed changes would result in spending being categorized by function, in the hope that officials evaluating budgets and reports will have a clearer understanding of the money's intended purpose.

Supervision over the state fiscal budget has become a top concern of the NPC. A significant change is that the government is explicitly calling for a focus on targeting the outcomes of economic growth, shifting away from the traditional emphasis on quantitative targets such as rates of growth and income levels. This new emphasis on outcomes will drive more attention to government performance and results—since the public sector is the primary provider of services. This will entail improving public expenditure management and ensuring that spending is more tightly linked to priorities, improving budget process and execution, and holding government accountable for improving its performance.

To date, budgetary reforms have been achieved largely at the national level and in the wealthier coastal provinces, such as Guangdong. Guangdong is one of the country's economic powerhouses following more than two decades of reform and opening to the outside

world. Since 1979, Guangdong has been looked to as a laboratory to test various reform policies. However, like other provinces, it still has a long way to go in building modern public finance systems, let alone adopting performance budgeting.

The current program of budget reform is a large, complex and ambitious package of measures that are long overdue. They will be crucial to moving China toward a modern budgeting system and a well-functioning public sector. Given the decentralized fiscal system, the reforms will have to be adopted by all levels of government, an effort that will not only be protracted and difficult, but in the end, implemented "with Chinese characteristics."



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