

Research on Financial Capability of County-level Government

Taking Pucheng County of Shanxi Province as an Example

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Abstract—Since the implementation of taxes and fees reform, with the abolition of agricultural taxes and other related taxes, the situation of financial deficit of county-level government is getting worse day by day. The contradiction between the insufficient financial capacity of local government and the growing demand of residents for public services has become increasingly prominent. Under this background, the study of the local government's financial capability is quite timely and important. Based on the above understanding, this paper chooses Pucheng County of Shanxi Province as the research object. From the perspective of financial capacity, this paper carries out the research from three dimensions of income ability, payment capacity and balanced capacity, understands the status of this county's financial capacity, analyzes the existing problems and reasons on this basis and finally gives the relevant policy suggestions.

Keywords—*financial capability; local government; Pucheng County of Shanxi Province*

I. INTRODUCTION

A. Research Background

1) *Traditional decentralization theory*: It is also called fiscal federalism. Tiebout, Oates and Musgrave are the representative personages of this theory, and they believe that local governments have the information advantages of providing public goods because of the regionalism of public goods. The residents in different regions can freely choose the places which can meet their preferences to settle down according to the combination of public goods provided by local governments and taxes. The residents also can move from the places which cannot meet their preferences to the places which can meet their preferences to settle down by the way of “voting with feet”, which can force local governments to better respond to the preferences of residents and promote the optimal allocation of resources.

2) *The secondary finance decentralization theory*: It is also named the second generation fiscal federalism theory. Qian Yingyi, Roland and Weingast are the representative personages of this theory, and they believe that fiscal decentralization can be a positive incentive to local

governments and also conducive to the rigid constraints of local government finances.

3) *Financial capacity and public service*: Financial capacity includes fiscal revenue ability and fiscal expenditure ability and the balance between them. Among them, the fiscal revenue capacity includes local fiscal revenue and higher transfer payment; the fiscal expenditure ability includes economic construction expenditure, basic public service expenditure, administrative expenditure and super-solution expenditure.

As an essential assurance of public service, financial capability has a direct impact on the establishment of service-oriented government. First, the supply of basic public services requires that government bear the primary responsibility. Second, the effective supply of basic public services is mainly undertaken by local governments. Therefore, only when local governments have sufficient financial guarantee can they ensure that local governments can effectively exercise the functions of providing basic public services. Furthermore, the equalization level of regional fiscal capacity will directly affect the equalization level of basic public service supply. The large gap of regional fiscal capacity will not only lead to widen the gap of regional economy, but also enlarge the gap of social development including public services, resulting in the inefficient allocation of resources, income disparity, social contradiction.¹

B. Research Status

Chinese scholars' attention to financial capacity rose in 1994 after the tax sharing reform. After searching and sorting out, the author believes that the domestic scholars' researches on the financial capacity can be divided into the following two categories:

The first category is that starting from the specific indicators of local government' fiscal capacity, the scholars apply statistical analysis, construction model and other

¹ Liu Xiaomei. Perfect the Financial System and Strengthen the Public Service Ability of Grassroots Government-- Analysis on the Connotation of Equalization of Financial System and Basic Public Service and Related Problems [J]. *Perfect the Financial System and Strengthen the Public Service Ability of Grassroots Leaders* 2008

methods to compare the differences of local financial capacity in a transverse and longitudinal way, and then they draw a conclusion that the mismatching of right of property, power and the uneven regional economic development and others are the reasons that lead to the unbalanced fiscal capacity of local government. Furthermore, they put forward the improvement measures of perfecting system of tax distribution, dividing the right of property and power reasonably and specifying the transfer payment system. Liu Rongcang, Jiao Guohua, Wang Yongjun and other scholars are the representative personages of this theory.

The second category is that the scholars carry out a systematic study on the fiscal capacity system of local government.² For example, Wang Jingyao (2009) *Analysis of Running Cost and Financial Capability of Local Government -- Taking Y District in Central China as An Example* and Su Zuqin, Wang Wenyong (2010) *A Study on the Ability of the Financial Support to Primary Basic Public Services in Minority Nationality Regions—Based on the Case Analysis of H County of Enshi Prefectures in Hubei Province*, they all start with the whole financial system, and dissect and analyze the local fiscal capacity system from the perspective of structure of fiscal revenue and expenditure and put emphasis on studying the government's ability on applying finance.

In conclusion, scholars have done a lot of researches on the financial capacity of local governments from different perspectives. However, most of them carry out researches on the lack of financial capacity, which mainly focus on the analytic demonstration of financial capacity from the overall and systematic point of view. Therefore, on this basis, this paper will take Pucheng County as an example and try to make a concrete analysis from three dimensions of fiscal revenue capacity, fiscal expenditure capacity and financial balance ability.

C. Significance and Purpose of Research

Since ancient times, "county governances, then world governances; county is security, then world is security." County-level government is the nerve terminal extending from the central government to the local area, which has played an extremely important foot-stone role in the stability of the Chinese regime, economic prosperity and social management. The quality of governance ability of county-level government is directly related to the implementation and performance effects of the party and state policies and is the key to social stability and development. Governance ability is embodied in the service capacity, but the realization of service capacity cannot separate from the financial support, therefore, it can be seen that financial capacity of county-level government determines the governance ability of the county-level government. Since the implementation of the taxes and fees reform, with the abolition of agricultural taxes and other related taxes, the situation of financial deficit of county-level government is getting worse day by day. The contradiction between the insufficient financial capacity of local

government and the growing demand of residents for public services has become increasingly prominent. Under this background, the study of the local government's financial capability is quite timely and important. The main purposes of this paper are the following two aspects:

First, by researching and analyzing the present government financial capacity condition of Pucheng county, this paper finds some main problems, and puts forward some theoretical suggestions for the development and improvement of the financial capacity of local county-level governments and provides data and analysis support for further investigation and research.

Next, this paper starts with the financial capacity of the government of Pucheng County, analyzes and studies the financial expenditure structure of the county and puts forward some suggestions for further improving the government's financial capacity. At the same time, this paper further carries out a data analysis on the public service expenditure of the county's financial expenditure and explores the providing ways and systems of public services in line with the characteristics of the county.

D. Logical Framework

This paper plans to combine theory with practice and carries out the text according to the mentality of theoretical analysis—empirical study—countermeasure and suggestion. This paper consists of the following three parts:

The first part mainly sorts out the relevant theories of financial capacity, and analyzes and summarizes the research status of domestic financial capacity, based on the investigation of theory and research status, and determines the entry point of this paper. That is, from the perspective of system theory, with the financial capacity of Pucheng county government, this paper carries out a concrete analysis on the three dimensions of fiscal revenue, fiscal expenditure and fiscal balance.

The second part carries out an empirical analysis based on the financial accounts data of Pucheng County from 2001 to 2010. "Fig. 1" is the specific framework for the analysis of financial capacity combined with the actual financial situation of the county. The fiscal revenue mainly consists of local fiscal revenue and higher transfer payment and the fiscal expenditure includes the four parts of economic construction expenditure, basic public service expenditure, administrative expenditure and super-solution expenditure. Based on the analysis of the fiscal revenue and expenditure, the financial balance ability is investigated by the financial self-sufficiency rate. Through the investigation for these three aspects, we can grasp the financial structure and financial change of the county.

The third part mainly analyzes and studies the problems affecting the realization of financial capacity of the county based on the empirical analysis and gives the recommendations to the relevant policy based on the combination of theory and practice.

² Jia Zhilian. *An Analysis of the Financial Capability of Local Governments: Based on the Logical Order of Financial Dimension*. Science and Management, 2010.1

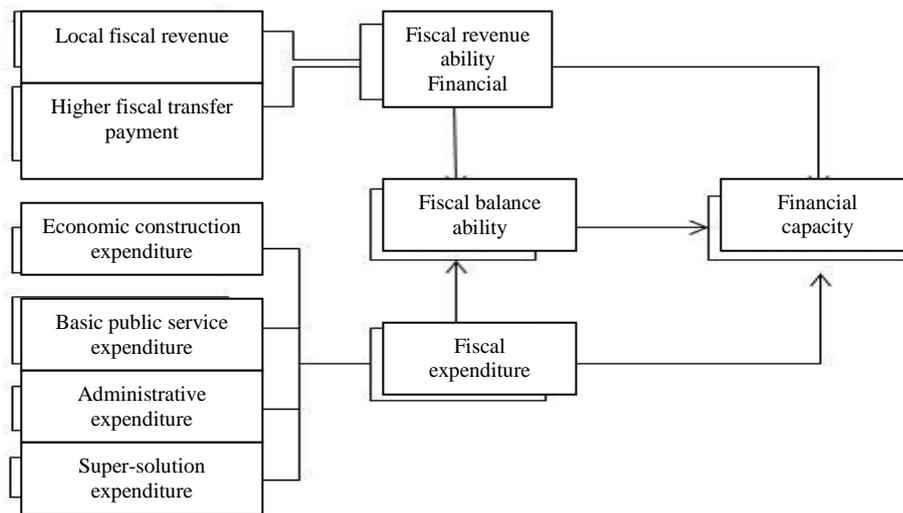


Fig. 1. Financial capacity framework

II. FINANCIAL CAPACITY ANALYSIS OF PUCHENG COUNTY

A. The General Situation of the Studied Area

Pucheng County is located in the eastern part of the Guanzhong Plain and is a large agricultural county. The county covers a total area of 1583.58 square kilometers, with 14 towns, 10 townships and 373 administrative villages. This county has a population of 0.76 million, of which 0.608 million people are rural residents, accounting for 80% of the total population. In 2010, the local fiscal revenue of Pucheng was 256.01 million yuan and the local fiscal expenditure was 1515.81 million yuan, and the rate of financial self-sufficiency was 16.89% in "Table I".

TABLE I. LOCAL FISCAL REVENUE OF PUCHENG COUNTY FROM 2001 TO 2010

Year	Local fiscal revenue	Growth rate
2001	11223	/
2002	10305	-8%
2003	9803	-5%
2004	8983	-8%
2005	5340	-41%
2006	7200	35%
2007	8820	23%
2008	12201	38%
2009	19600	61%
2010	25601	31%

^a Note 1. Unit: ten thousand yuan 2. Partial data sources: Compilation Statement of Financial General Final Accounts of Pucheng County from 2001 to 2010

Pucheng County is a large agricultural county, and the impacts of taxes and fees reform on it are self-evident. Due to the impacts of system of tax distribution before the tax reform, the taxes and fees reform has further weakened the financial capability of the county. From 2001 to 2010, the local fiscal revenue of Pucheng County has increased from 112.23 million yuan to 256.01 million yuan and the annual rate of growth was 13.3%. However, the obvious volatility period was from 2002 to 2005. This period of time has been affected by the rural taxes and fees reform, and the relevant categories of taxes of agricultural tax and agricultural special duty have

been abolished. The fiscal revenue of this county shows the consecutive negative growth for 4 years which make finances of this county be in a dilemma.

TABLE II. FISCAL SELF-SUFFICIENCY RATE OF PUCHENG COUNTY FROM 2001 TO 2010

Year	Local fiscal revenue	Local fiscal expenditure	Self-sufficiency rate
2001	11223	16726	67%
2002	10305	19729	52%
2003	9803	19649	50%
2004	8983	22131	41%
2005	5340	26623	20%
2006	7200	37043	19%
2007	8820	61370	14%
2008	12201	81324	15%
2009	19600	115513	17%
2010	25601	151581	17%

^b Note: 1. Unit: ten thousand yuan 2. Partial data: Compilation Statement of Financial General Final Accounts of Pucheng County from 2001 to 2010

With the gradual establishment of service-oriented government, the responsibility of local governments for providing basic public services is becoming more and more important, and the realization of service functions of local government cannot separate from the strong financial support. As we can see, with the constant reduction of fiscal revenue, the fiscal expenditure of government has been increasing. As a result of the sharp increase of fiscal expenditure and the difficult fiscal revenue, the financial self-sufficiency of this county government has declined year by year in "Table II".

B. Analysis of Structure of Fiscal Revenue

As an aspect of financial allocation, government fiscal revenue refers to that the government collects the monetary capital by certain forms and channels, which is the financial guarantee to realize governmental functions.³ The fiscal revenue of Pucheng County mainly consists of the two major parts, local fiscal revenue and higher transfer payment.

³ Zhu Fangqing. *A Study on the Financial Capability of Xianan District Government*. Master's Thesis of Central China Normal University, 2008. 5

Among them, local fiscal revenue capacity mainly includes the fiscal revenue at the corresponding level, village and town financial extraction and other financial revenues. The higher transfer payment mainly includes the refund subsidy of added-value tax revenue, the refund subsidy of income tax cardinal number, return income of oil product prices and taxes and fees reform, special subsidy, balance transfer allowance, wage adjustment transfer payment subsidy, the transfer payment subsidy of rural taxes and fees reform, basic financial guarantee mechanism of county-level incentive fund subsidy, settlement subsidy, enterprises and institutions transfer subsidy, education transfer payment, agriculture, forestry, water subsidy and other transfer payment in "Table III".

TABLE III. THE INCOME OF AGRICULTURAL TAX AND AGRICULTURAL SPECIAL DUTY OF PUCHENG COUNTY FROM 2001 TO 2004

Year	Agricultural tax	Agricultural special duty
2001	787	2788
2002	1847.8	1600.9
2003	1494	1800
2004	1650	/

^c Note 1. Unit: ten thousand yuan 2. Partial data: Compilation Statement of Financial General Final Accounts of Pucheng County from 2001 to 2010

With the implementation of taxes and fees reform, the local fiscal revenue of this county has decreased sharply and the higher transfer payment income has increased substantially. In 2003, the county's transfer payment income exceeded the local fiscal revenue for the first time and increased rapidly year by year. Therefore, the impact of rural taxes and fees reform on county-level finance is enormous.

From "Table IV" we can obviously see that, after 2003, this county basically has lost the financial autonomy, and the higher transfer payment has gradually become the main guarantee, meanwhile, the responsibility of basic public service functions of this county's local government has been increasing. The low financial self-sufficiency ability resulted in a high dependence of local finance on the higher authority finance, which not only damaged the autonomous right of

local finance, but also weakened the public service ability of local government and reduces the enthusiasm and sense of responsibility of local government to increase revenue and reduce expenditure and improve the expenditure efficiency.

TABLE IV. FISCAL REVENUE OF PUCHENG COUNTY FROM 2001 TO 2010

Year	Local fiscal revenue	Higher transfer payment	Rolled out deficits last year	General financial revenue
2001	11223	6570	661	17132
2002	10305	9569	2108	17766
2003	9803	10537	5442	14898
2004	8983	17260	8170	18073
2005	5340	26945	5651	26634
2006	7200	33187	5672	34715
2007	8820	52548	4861	56507
2008	12201	63866	-4781	80848
2009	19600	94861	2214	112247
2010	25601	124921	5959	144563

^d Note 1. Unit: ten thousand yuan 2. Partial data: Compilation Statement of Financial General Final Accounts of Pucheng County from 2001 to 2010

C. Analysis of Structure of Fiscal Expenditure

In accordance with the provisions of national *Budget Act*, the local governments must balance their budgets and draw up the budgets in accordance with the principle of keeping expenditures within the limits of income and balancing revenues and expenditures, without deficit. Therefore, in the principle of keeping expenditures within the limits of income, the investigation of the fiscal revenue ability of Pucheng County from 2001 to 2010 in the above paragraphs can be used as the basis of the investigation for the structure of fiscal expenditure of the county.

According to the relationship between local fiscal expenditure and state functions, this paper divides the basic public service expenditure into the four items: economic construction expenditure, basic public service expenditure, administrative expenditure and super-solution expenditure. "Fig. 2" is a breakdown drawing of the county's fiscal expenditure from 2001 to 2010.

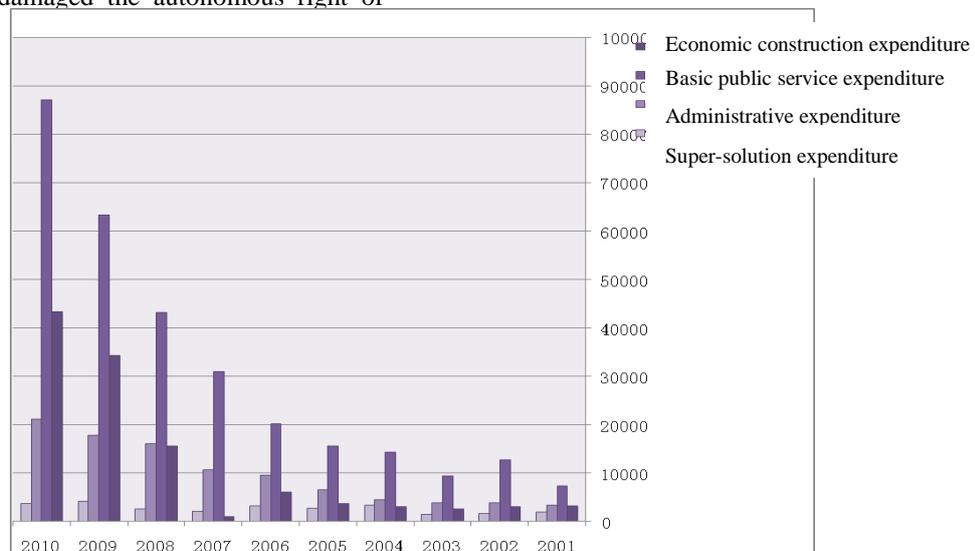


Fig. 2. Pucheng county's structure of fiscal expenditure from 2001 to 2010 (Unit: ten thousand yuan).

1) *Basic public service expenditure*: One of the important functions of local finance is to provide the public goods at the corresponding level, and the important factor that affects the local government's public service is the local finance, and the capacity of local finance directly affects the quality and

quantity of public service supply. The basic public services are the basic guarantee for people's survival and development. This paper mainly considers and discusses the issues from the four parts of education, culture, health care and social security in "Fig. 3".

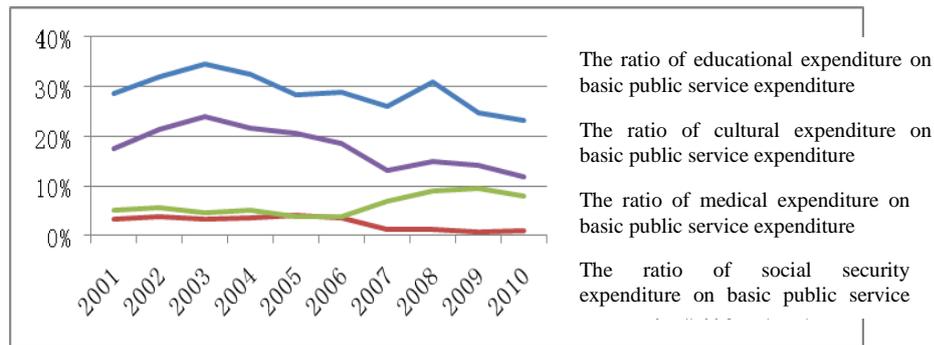


Fig. 3. The proportion of basic public service expenditures on fiscal revenue from 2001 to 2010.

At the present stage, the basic direction of the adjustment and optimization of fiscal expenditure in China is: Financial funds gradually withdraw from the competition field of market allocation resources, and at the same time the government appropriately increases the expenditure on public projects such as science, education, culture and health, social security and infrastructure construction. It can be seen from "Table V" that the absolute amount of education expenditure, cultural expenditure, medical expenditure and social security expenditure of Pucheng County from 2001 to 2010 has increased significantly. In 2010, education expenditure reached 351.78 million yuan, cultural expenditure reached 14.03 million yuan, medical

expenditure reached 121.25 million yuan, social security expenditure reached 181.38 million yuan, but the proportion of their on local fiscal expenditure has not increased year by year. It can be seen from Fig. 3 that in addition to a small increase in the proportion of medical expenditure on total financial expenditure, the proportion of the expenditure of basic public services on total financial expenditure shows a downward trend. Among them, the proportion of education and social security expenditure declined significantly, education declined from 28% in 2001 to 23% in 2010, dropping by 5 percent, which is far from the 40% stipulated by the state; Social security expenditure declined from 18% in 2001 to 12% in 2010, dropping by 6 percent.

TABLE V. STRUCTURE OF FISCAL EXPENDITURE OF PUCHENG COUNTY

	Economic construction expenditure	Basic public service expenditure	Administrative expenditure	Super-solution expenditure
2001	3126	7380	3359	1889
2002	3016	12728	3831	1614
2003	2510	9404	3887	1403
2004	3099	14334	4513	3437
2005	3657	15640	6531	2668
2006	6056	20170	9488	3213
2007	998	31004	10675	2091
2008	15547	43150	16025	2598
2009	34336	63258	17819	4153
2010	43310	87144	21094	3682

^e Note 1. Unit: ten thousand yuan 2. Partial data: Compilation Statement of Financial General Final Accounts of Pucheng County from 2001 to 2010

2) *Economic construction expenditure*: With the decrease of the proportion of basic public service expenditure on the fiscal expenditure, the proportion of economic construction expenditure in the total fiscal expenditure of the county shows a significant increase. It can be seen from "Fig. 4" that the proportion of economic construction expenditure on the fiscal

expenditure of the county from 2000 to 2010 has increased from 19% in the 2001 to 29%. Among them, as an agricultural county with the majority of the agricultural population, the county's expenditure on supporting agriculture accounts for a large part.

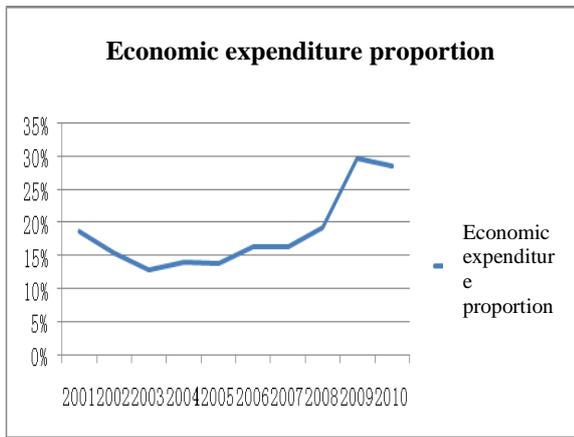


Fig. 4. The proportion of economic expenditure on fiscal revenue of Pucheng County from 2001 to 2010.

3) *Administrative expenditure:* The administrative expenditure is the funds allocated by the government for the power organs and administrative organs at all levels to exercise their functions. It is an important fund to maintain the existence of state power and guarantee the normal operation of the national management institutions at all levels. It is mainly divided into two categories: personnel and public funds⁴. The administrative expenses of this paper mainly include the expenditure of administrative expenses and public security.

The proportion of administrative expenditure of Pucheng County in the overall financial expenditure has been relatively large since 2001. It reached a peak value of 26% in 2006, followed by a slow decline, but its absolute value has been in a relatively fast-growing state. The administrative expenditure of this county in 2010 was 210.94 million yuan, and the local fiscal revenue was 256.1 million yuan. The local finance only can guarantee the normal operation of the county's national regulatory agencies.

The financial system of the mature market economy country can also be called the public finance mode, and its structural characteristics can be summed up as follows: With the improvement of economic development level, the proportion of administrative expenditure will gradually reduce, while the proportion of expenditure on education, health and social security will continue to rise; The proportion of financial expenditure in administration, national defense and social security is small, the proportion of financial expenditure in education, health and social security is large, and the proportion of administrative expenditure is not more than 10%⁵. It can be seen from "Fig. 5" that although the proportion of administrative expenditure of the county has declined year by year, it still reached 13%, and higher than 10%.

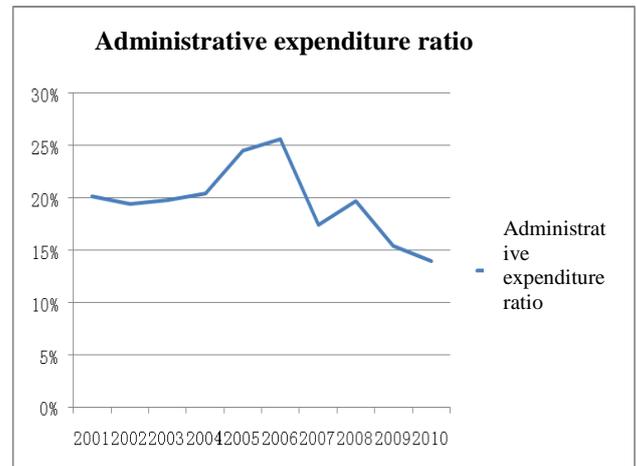


Fig. 5. Administrative expenditure in Pucheng County from 2001 to 2010.

III. THE EXISTING PROBLEMS IN THE REALIZATION OF FINANCIAL CAPACITY OF PUCHENG COUNTY

A. Low Financial Self-Sufficiency Rate and Inability to Provide Public Goods

Pucheng County is a large agricultural county. After the reform of system of tax distribution, especially after the implementation of taxes reform, the fiscal revenue has been greatly reduced, the fiscal expenditure has been growing fast, and the contradiction between revenue and expenditure is outstanding. Finance can barely maintain the level of "survival", and the ability to provide public goods and services is very limited. At the same time, because of the low level of financial resources, the lack of financial investment on education, health, culture, social security and other basic public services field and the special funds arranged by the superior for career development which are often diverted to pay for the wages, the quantity and quality of public services have grown slowly.

B. Unscientific Definition of the County Government Responsibility

According to theoretical principle and international experience of the division of intergovernmental expenditure responsibility, social security should belong to the national public service mainly funded by the central government, and education and health care should belong to the public service funded by the central and local government. The specific supply and management responsibilities of these public services are basically borne by the local government. In our country, after the reform of system of tax distribution, the financial power has moved up, and the powers have moved down. Pucheng County has almost undertaken all social support and public service, even the defense expenditure is within government's scope, and the unreasonable division of powers has greatly increased the financial burden of the county government. For another, the county government has also undertaken a lot of things that should be done by the market, such as profitable project investment, subsidies for losses to enterprises and so on. Meanwhile, under the

⁴ Zhou Yongting. *Analysis on the Current Situation of China's Administrative Expenditure and Its Reform Proposals*. Operating Management, 2010, No. 8

⁵ Zhao Donghui. *On China finance Payout Function Structure's Departure with Public Finance*. Financial Window, 2006, No. 8

guidance of the idea of “putting more emphasis on economy rather service”, the government’s investment in basic public services is seriously insufficient, especially in education and social security. In addition, there is a certain imbalance in the proportion of public service investment between urban and rural areas, thus further exacerbating the expansion of urban-rural gap.

C. Excessive Administrative Expenses

Niskanen, the representative of on the growth of bureaucracy, argues that the bureaucracy aims to maximize the scale of the organization which leads to the growing expansion of public expenditure scale, and even the growth of public expenditure scale exceeds the expenditure level required by the optimal output level of public goods. Wagner’s Law also tells us that the growing expansion of public expenditure scale is an objective law of social and economic development. Nevertheless, the cost of administrative expenditure in mature market economy countries is generally no more than 10% of the fiscal expenditure, but the fiscal expenditure of the county is far higher than 10%. The cost of administrative expense is a relatively rigid expenditure. Once it expands, it is difficult to make cuts, which undoubtedly brings a difficulty to the future control of the growth of fiscal expenditure, so it should be controlled.

D. The Imperfect Transfer Payment System

The basic purpose of the transfer payment is to realize the equalization of public services. From the above statistics, it can be seen that the vast majority of fiscal expenditure revenues of Pucheng County gets from the superior government transfer payment. International experience shows that the excessive reliance on central government subsidies is contrary to improving government performance. Compared with the funds received from the central government, local government will be cautious about using the funds obtained by levying taxes on voters.⁶ At present, there are many existing problems when the county accepts the payment transfer from the superior:

Firstly, the amount of earmarks in the transfer payment is too high, and the county-level government only can use the funds for special purposes, which is not conducive to improving the efficiency. Furthermore, the earmarks, especially the appropriations to support the new rural construction, have a fuzzy allocation criteria and the project is messy and refined, which is easy to lead to the “rent-seeking” behavior of the county-level government when they apply to the higher government for the appropriation and the allocation of funds.

Secondly, the tax returns are not reasonable. The tax returns system of our country adopts the method of tax returns amount = cardinality+ cardinality* coefficient* consumption tax and 75% of the VAT rate, which tightly connects the tax returns amount of all provinces and cities with the basic

amount in 1994. In this way, the equalization function of transfer payment is greatly reduced, resulting in further widening the financial disparity between different regions. The transfer payment of this county in 2010 was 1249.21 million yuan. The VAT tax returns subsidy was 11.5 million yuan, the returns subsidy of income tax base was 6.73 million yuan, the transfer payment subsidy of rural tax-fee reform was 70.98 million yuan, and the returns of refined oil products and taxes and fees reform were 5.71 million yuan. The sum of the four subsidies accounted for 8% of the transfer payment in 2010, although the proportion is not large, the absolute amount is very large and has increased year by year, which has a great restriction on the effectiveness of transfer payment.

IV. SUGGESTIONS ON POLICY

A. Scientifically Define Intergovernmental Responsibilities

The powers system of local government is the logical premise of its fiscal capability. In view of the lack of norms and the unclear responsibilities of the basic public service in our country, we should formulate and perfect the laws and regulations in the basic public services areas, define the responsibilities of government at all levels in the aspect of providing basic public services, and allocate the authorities rationally, so as to give full play to the local government’s public service capacity.

On this basis, Pucheng County government should accurately locate its own fiscal capacity, recognize the current situation of “payroll finance”, set priorities and use the limited finance to provide public services and improve people’s lives. The macro-control of the expenditure structure should be carried out well. Based on ensuring the normal payrolls, the expenditure scale of basic public services, such as education, social security and health, should be strengthened. Meanwhile, we should further clarify the relationship between the government and the market, change the state of taking on all things, and speed up the transition to a service-oriented government.

B. Cultivate and Foster the Local Financial Resources

Developing regional economy and conserving local government resources is the best way to enhance the financial capacity of local governments. Therefore, it should be guided by a comprehensive, coordinated and sustainable view of development. On the one hand, the Pucheng County’s government should adjust measures to local conditions, formulate a regional economic development plan in line with its own situation, scientifically introduce funds, optimize the policies to attract private capital to invest and set up factories, and create a good institutional environment for the development of private enterprises. On the other hand, we should vigorously develop the characteristic economy according to the actual situation of the county, and focus on supporting pillar industries such as fireworks, greenhouse melons and crisp pears. At the same time, we can rely on “Tang Wuling” to continue to vigorously develop tourism.

In addition, in the process of allocating the economic resources, the operation of government’s financial resources

⁶ Jia Zhilian. *An Analysis of the Financial Capability of Local Governments: Based on the Logical Order of Financial Dimension*. Science and Management, 2010.1

bears a heavy responsibility of inducing social capital to flow reasonably and constructing the main body frame of industrial structure. Compared with the social funds, government's financial resources can effectively solve the problems of optimizing the allocation of industrial capital and balancing social and economic benefits. Therefore, the preparation and launching of financial resources should have the reasonable plans and guides.

C. Introduce Competition Mechanisms

David Osborne and Ted Gaebler, the American scholars, systematically summarize the ten principles of entrepreneurial government: 1. the main responsibility of the government is to steer rather than paddle; 2. lay emphasis on proper authorization rather than attend to everything personally; 3. introduce competition mechanisms; 4. with innovative spirit and mission; 5. lay emphasis on output rather than input; 6. with customer awareness; 7. be profitable and no waste; 8. lay emphasis on prevention rather than post treatment; 9. decentralized government; 10. lay emphasis on market mechanism rather than merely rely on administrative instruction control.

When providing the public goods, local government should also further play the role of the market. The government gradually withdraws from the market, so as to reduce the administrative costs caused by the "ultra vires" of the government. For example, improve the operation mode of the local government's public goods supply and realize the public affairs governance mode jointly participated by local governments, markets and society. At the same time, on this basis, the government should encourage innovation, rationally divide the rights and obligations between local government and enterprises, society and people, share the cost of system innovation, and solve the contradiction between the limitation of government provision of public goods and growing social needs.

D. Reduce Administrative Expenditure and Alleviate Financial Support Pressure

1) *Streamline institutions*: Pucheng County is a typical "payroll finance". If the number of staff who is supported by finance is too large, it will not only cause the low efficiency, but also aggravate the situation of financial difficulties and reduce the effective utilization of finance. Therefore, we must streamline the institutions and strictly control the establishment of new institutions. At the same time, we can speed up the pace of institutional reform and bring some operating institutions to the market to make them self-financing and self-sustaining to reduce the burden of financial support.

2) *Control position-related consumption*: We should further standardize and implement the government procurement system. In accordance with the Government Procurement Law, combined with the actual situation of the county, we can formulate relevant implementation rules and clearly stipulate the scope, principles and methods of government procurement. At the same time, the relevant

departments such as the financial department, audit department and discipline inspection department should intensify supervision and control the administrative costs from the source. In addition, classify and sort the existing consumption items, standardize the consumption range of civil servants, eliminate the consumption behavior of public funds and reduce the administrative cost.

E. Increase Transparency of Fiscal Expenditure

"The sun is the best pesticide", Pucheng County government should make the fiscal expenditure public, accept the supervision of the society and listen to the opinions of the masses, so as to urge the government to be more cautious and reasonable in formulating the budget. Furthermore, Pucheng County government also should optimize the structure of fiscal expenditure, and reduce unnecessary expenditure to improve the effective utilization of financial funds and improve fiscal expenditure ability of the Pucheng County government. Meanwhile, when the government performance is assessed, it should adopt the public satisfaction into the evaluation index and make it account a certain weight so that the needs of the people can be better reflected in the government's fiscal expenditure structure, so as to improve the effectiveness of the structure of fiscal expenditure.

V. CONCLUSION

Since the implementation of tax and fee reforms, with the abolition of the agricultural tax and other related taxes, the situation of the county fiscal deficits level is getting worse. The contradiction between the weak financial capacity of local governments and the growing demand for public services of residents is more and more prominent. So, the research about the fiscal capacity of local government becomes quite timely and important.

Based on the above understanding, the paper selected the country of Pu cheng, Shaanxi Province, perspecting on financial capability, including the earning capacity, the revenue capacity and the balance capacity, to understand the status of the county's financial capacity, and the try to give relevant policy recommendations.

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