

Research on the Relationship between Fiscal Decentralization and Regional Economic Development

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Abstract: Fiscal decentralization refers to the transfer of certain fiscal powers and responsibilities from the central government to local governments, granting local governments greater autonomy in fiscal revenue and expenditure, budget management, and tax policy. This paper explores the impact of fiscal decentralization on regional economic development, analyzing its advantages and disadvantages, and proposes suggestions for further optimizing the fiscal decentralization system. Through a review and analysis of relevant literature, this paper finds that fiscal decentralization plays an important role in promoting regional economic development, optimizing resource allocation, and improving the quality of public services. However, it also faces challenges such as regional development imbalances and increased management difficulties. To achieve more balanced regional economic development, it is necessary to further improve the fiscal decentralization system and strengthen coordination and cooperation between the central and local governments.

Keywords: Fiscal Decentralization; Regional Economic Development; Public Services; Resource Allocation; Policy Recommendations

1. Introduction

Fiscal decentralization, as an important governance mechanism, allows local governments to manage finances based on local conditions by transferring some fiscal powers to them, promoting regional economic development^[1]. In China's ongoing economic reforms, fiscal decentralization has enhanced local economic growth, optimized industrial structures, and improved public service quality. However, it also faces challenges like regional imbalances and fiscal management difficulties. This paper explores how to better implement fiscal decentralization and promote coordinated regional economic development by examining their relationship.

2. The Concept of Fiscal Decentralization

Fiscal decentralization refers to the transfer of certain fiscal powers and responsibilities from the central government to local governments, granting local governments greater autonomy in fiscal revenue, expenditure, and budget management^[2]. The core of fiscal decentralization is to improve resource allocation efficiency and promote local economic development by reasonably distributing fiscal powers and responsibilities between the central and local governments.

3. The Impact of Fiscal Decentralization on Regional Economic Development

3.1 Positive Impacts

Fiscal decentralization grants local governments greater autonomy, enabling them to tailor policies to local conditions, attract foreign investment through tax incentives, streamline administrative procedures, and enhance regional competitiveness for economic growth^[3]. With deeper local insights, governments can better meet development needs by reallocating resources to infrastructure, education, healthcare, and public services, thereby improving the business environment and economic conditions. This autonomy also allows for higher quality public services tailored to residents' needs, promoting social harmony and stability through increased fiscal investment. Furthermore, fiscal decentralization enhances local government accountability and initiative, improving fiscal management, public service quality, budget preparation, fund usage efficiency, and corruption prevention^[4].

3.2 Negative Impacts

Fiscal decentralization may exacerbate regional imbalances, as wealthier regions can invest more in economic growth, while poorer regions struggle with limited resources. It also presents fiscal management challenges, such as non-standard practices and potential corruption,

reducing efficiency. Coordination difficulties between central and local governments can affect policy implementation, leading to tax management and budget disagreements. Additionally, without proper planning, local governments may face increased fiscal risks and debt crises from excessive infrastructure debt, impacting economic stability^[5].

4. Strategies and Recommendations for Implementing Fiscal Decentralization

4.1 Scientific Division of Fiscal Powers and Responsibilities Between Central and Local Governments

To effectively implement fiscal decentralization, it is essential to scientifically divide fiscal powers and responsibilities between central and local governments. The central government should clearly define revenue sources and expenditure responsibilities, sharing major taxes like VAT and corporate income tax, and establishing local taxes like property tax. Expenditure responsibilities should be divided based on the nature of public services, with the central government handling national affairs and local governments managing education, healthcare, social security, and infrastructure. Establish fiscal coordination mechanisms for regular communication and adjustments. Enhance supervision and guidance on local fiscal management through standards, guidelines, training, and improved management capabilities. Regularly audit and evaluate local governments' fiscal management, promptly correcting issues^[6].

4.2 Improving the Local Tax System

A well-developed local tax system is crucial for implementing fiscal decentralization. The central government should set local taxes based on regional economic conditions to ensure stable fiscal revenue for local governments. Specific strategies include reasonably setting and adjusting local taxes, such as local surcharges, consumption taxes, and environmental protection taxes, with flexible tax rates and collection scopes. Strengthening tax collection and management is essential, involving the formulation of regulations, standardizing processes, and enhancing tax personnel training. Promoting tax reform by simplifying the tax system, reducing tax types, and lowering tax rates can reduce the tax burden on enterprises and residents, stimulating market vitality and economic development. Additionally, comprehensive tax incentive mechanisms should be established to reward local governments and tax personnel for efficient tax collection, encouraging active participation in tax collection efforts^[7].

4.3 Improving the Transfer Payment System

The transfer payment system is crucial for balancing regional economic development, requiring increased fiscal support for underdeveloped regions. Strategies include setting transfer payment projects based on regional conditions, prioritizing areas with weak infrastructure and low public service levels, and focusing on education, healthcare, and social security. To ensure fairness and transparency, the central government should clarify transfer payment standards considering population size, economic development, and financial situation. Strengthen management and supervision of transfer funds through real-time monitoring systems to prevent misappropriation and waste. Regular evaluations of the system's effectiveness should be conducted by third-party agencies to assess fund usage, project implementation, and benefits, allowing for timely adjustments^[8].

4.4 Strengthening Fiscal Management Capacity

Local governments should enhance fiscal management by establishing comprehensive systems based on central guidance, formulating scientific budget preparation, execution, and supervision to ensure proper use of funds and prevent waste^[9,10]. This includes creating detailed budget plans, strictly following execution, and strengthening oversight. Improving fiscal supervision involves setting up agencies with professional personnel to oversee fund usage. Additionally, local governments should establish fiscal risk management mechanisms with scientific assessment and early warning systems to prevent risks.

4.5 Promoting Information Transparency

Implementing fiscal decentralization requires high transparency and information disclosure. Local governments should disclose fiscal information, including budgets, revenue, expenditures, and project approvals. Strategies include establishing comprehensive disclosure systems, creating detailed guidelines, and enhancing accessibility through websites for timely publication of information. Regular fiscal reports

ensure transparency and accountability. Additionally, public supervision should be accepted by establishing participation mechanisms to gather opinions and improve fiscal management. These strategies will enhance the fiscal decentralization system, promote coordinated regional economic development, achieve high-quality growth, improve public services, and provide a solid foundation for building a modern socialist country.

5. International Experience with Fiscal Decentralization

5.1 The Experience of Fiscal Decentralization in the United States

The United States operates under a federal system where states have significant fiscal autonomy. The federal and state governments have clear divisions of responsibility in terms of taxation and fiscal expenditure, with states formulating fiscal policies based on their circumstances to promote local economic development. The experience of fiscal decentralization in the United States demonstrates that a scientifically rational fiscal decentralization system can effectively promote local economic development and improve resource allocation efficiency.

5.2 The Experience of Fiscal Decentralization in Germany

Germany also operates under a federal system, where states have substantial autonomy in fiscal management. The federal and state governments have clear divisions of responsibility in terms of taxation and fiscal expenditure, with states formulating fiscal policies based on their circumstances to promote local economic development. The experience of fiscal decentralization in Germany shows that a scientifically rational fiscal decentralization system can effectively promote local economic development and improve resource allocation efficiency.

5.3 The Experience of Fiscal Decentralization in Canada

Canada operates under a federal system where provinces have significant autonomy in fiscal management. The federal and provincial governments have clear divisions of responsibility in terms of taxation and fiscal expenditure, with provinces formulating fiscal policies based on their circumstances to promote local economic development. The experience of fiscal decentralization in Canada indicates that a scientifically rational fiscal decentralization system can effectively promote local economic development and improve resource allocation efficiency.

6. Conclusion

Fiscal decentralization transfers certain fiscal powers to local governments, enabling them to manage finances based on local conditions and promote regional economic development. It plays a crucial role in enhancing local economic growth, optimizing resource allocation, and improving public service quality. However, it also faces challenges such as regional imbalances and fiscal management difficulties. To achieve balanced regional development, it is essential to improve the fiscal decentralization system, strengthen central-local government coordination, scientifically divide fiscal powers, enhance the local tax system, refine the transfer payment system, boost fiscal management capabilities, and promote transparency. The experiences of the United States, Germany, and Canada offer valuable insights for China. By scientifically designing and implementing a fiscal decentralization system, China can effectively promote coordinated regional development, achieve high-quality economic growth, improve public services, enhance residents' well-being, and provide a solid foundation for building a modern socialist country.

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