

The Quest for Welfare Spending Equalization in China: A Fiscal Federalism Perspective

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Abstract

The welfare state is yet withering away in the era of globalization since developed countries have spent more for social services than less-developed countries. China in transition bears some analogy to the case above, i.e., the more developed regions, the more welfare spending. However, the equity issue of welfare spending across regions has to be addressed for building a harmonious society. A compound fiscal system is argued for welfare spending equalization from a fiscal federalism perspective. While regional fiscal diversity is allowed in this study, unlike other studies on central transfer payment, the determinants of two welfare expenditure equalization measurements are explored empirically across regions by means of multiple regression analysis and then factor analysis. The two-factor solutions do separate the market-based approach from the government-based approach. Specifically, market efficiency warrants the linkage of economic development and welfare expenditure, and welfare state does the linkage of fiscal expenditure size and welfare spending equalization. In conclusion, fiscal federalism in association with a market economy makes more sense for reconciling efficiency and equity with respect to a welfare state system.

Keywords: fiscal federalism; welfare spending equalization; China in transition