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# **Abnormal Supernal Macro Tax Burden Impeding Equilibrium Development of China's Economy and Inducing Its Economy Receding**

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## **Abstract**

Recent years have witnessed increasingly heavy pressure for China's economy to recede which is an anxious phenomenon for global economists and statesmen. The paper has shed new light on that, firstly, it was the abnormal supernal macro tax burden that impeded equilibrium development of China's economy, which further more made China's economy to recede; secondly, it is proposed for future frame of Public Finance theory and practice. It is suggested that China's government should pursue reasonable macro tax burden and the route of China's modern financial and taxation system is proposed.

**Keywords:** Macro Tax Burden, Economic Disequilibrium and Receding, Tax Cuts, Frame of Public Finance Theory and Practice

## **Introduction**

The structure of paper is as follows. First is a summary of literature. Definitions of conceptions and the reasonable amount of macro tax burden are discussed. Second illustrates the main problems that impede China's economic growth in recent years. China's macro tax burden has been gradually rising year by year, disequilibrium of China's macro economy becoming more and more serious, and inducing its economy receding. Some implications of this policy are discussed in third.

## **A Roundup of Literature**

Recently China's economic growth is a subject of intense interest to government officials, economic professionals, business managers, and many others. The story of its rise from well between 7%-8% in the late 1970s to less than 7% in the middle 2010s is a familiar one, although there is no consensus concerning the relative importance of macro tax burden per GDP and other factors in this expansion. The economic growth in some developed countries is substantially lower, for example, under 3% in the United States, Canada and the United Kingdom in long term) even though they have universal robust economic growth. Currently, many observers expect China's economic growth to reach 7% or more within a few years. Such growth would increase the possibility of delivering supply-side reform interest to all Chinese, including peasants who currently have less medical insurance. If the prospect can realize, what important thing we would do?

**Definitions of Conceptions.** Macro tax burden is the central question at issue of tax policy and system. Macro tax burden is the general level of a country's tax bearing; that is, tax revenues per GDP in the same time of a country in some term. But, it is useless only using tax revenues reflects both the tax bearing of micro economic units and China's macro tax burden, because not only there are varieties of the sources of China's government income, but also they are abnormal. Thus, we should use fiscal revenues per GDP in order to indicate China's macro tax burden. There are three kinds of macro tax burdens which are small, medium and great sizes according to three definitions of fiscal revenues.

Small size fiscal revenues only include tax revenues. Medium include tax revenues and other incomes in government budget according to budget income statistics. Great include all of government's tax and nontax revenues, it not only includes government on-budget revenues, but also a great deal of various receipts not covered in the state budget from businesses and

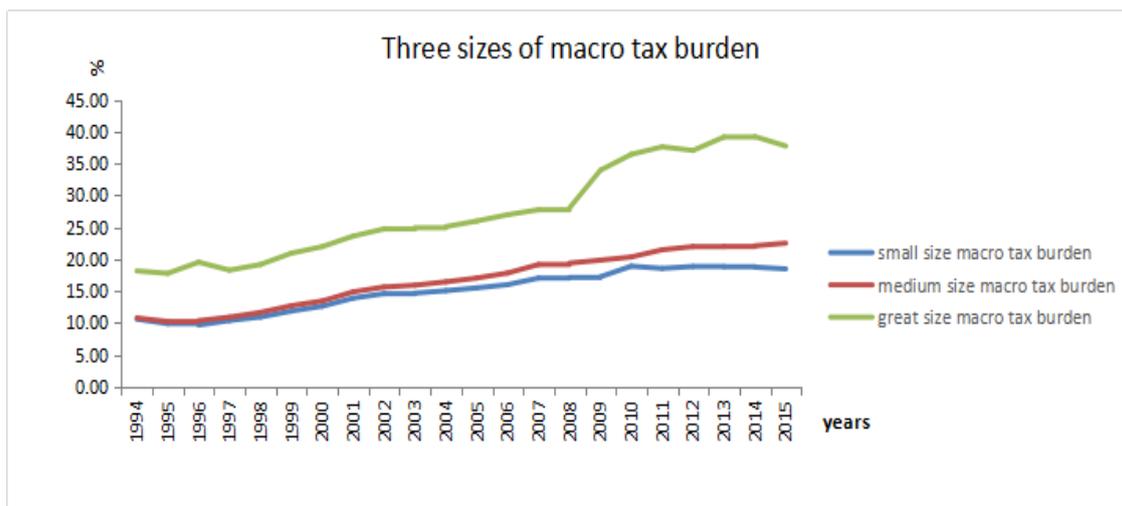
individuals. The great can comprehensively and truly reflect the macro tax burden level of the whole national economy in China.

**How much amount of macro tax burden being reasonable?** The answer can be got by studying the relationship between economic growth and macro tax burden. There are so many scholars having been recorded in the literature consider it takes the inverted U shape for macro tax burden to impact economic growth (Laffer Arthur B., Canto Victor A., and Joines Douglas H., 1983; Jonathan Skinner, 1987; Peden, 1991; Gerald W. Scully, 1991; Nir Jaimovich and Sergio Rebelo, 2012).

### **The main problems of inducing china's economic growth downward pressure in recent years**

**Macro Tax Burden Rising Year by Year.** Before 1994 reform tax system in China, fiscal revenues were synchronization with economic growth, but economic growth violently waved. After 1995, the growth rate of fiscal revenues took the evident characterization of opposite economic growth periodic features. From 1995 to 2006, the growth rate of fiscal revenues had begun to rising while economic growth rate did falling, and the former took obvious hysteretic nature (Heyan, Mali and Zhoujingyang, 2009).

Tax system has been reformed since 1994, the fiscal revenues of China's government had been expanded with unprecedented speed accompany with GDP rapidly growth. The former speed had been rapidly faster than the latter. From 1994 to 2014, the fiscal revenues of China's government had been risen from 521.8 billion RMB to 1,403.7 billion RMB, average growth rate per annum was 17.9%, while the average growth rate of normal GDP per annum was only 13.7% at the same time. The total fiscal revenues of China's government in 2014 were 24.3 thousand billion RMB, the share of GDP was about 38.2% according to IMF's relative definitions. The government revenues share of GDP in the USA, the United kingdom and the Japanese were, respectively, 26%, 32.6% and 30.3% in 2014 according to OECD. The ratio of 38.2% in China was near the level of European welfare countries (NetEase News, 2016).



**Fig.1 China's three sizes macro tax burden<sup>1</sup>**

China's tax system had been reformed since 1994, as a whole, China's macro tax burden had been not only rising year by year, see Fig.1, but also Chinese sharing lower welfare when it had been on the higher location (Hejie ZHANG, 2014: 172). The phenomenon had been peerless in the world. The continued rapid growth of fiscal revenues since 1994 had been realized the primer reform aim, but it had been increased albatross of China's businesses and individuals at the same time. It was very disadvantage to stimulating investment, to expanding domestic demand, to promoting international competitiveness of enterprises and China's economic sustainable and stable growth. It was the main cause that made the present China's economic growth and transformation and upgrading delayed effect. Finally, the result had been making China's economy receding.

**Disequilibrium of China's macro economy becoming more and more serious.** Hejie ZHANG found that the disequilibrium of China's macro economy (measured areas formed by fiscal gap, foreign exchange gap and savings gap) from 1981 to now has not been decreased, but increased in study of China's internal and external equilibrium policy mix based on three gaps model. Simulated experiment showed that China's government could shorten the huge gap of China's economic development through adjusting fiscal policy, savings policy and foreign exchange policy. At premise of no more vibration of society, the best policy was that China's government should decrease abnormal supernal macro tax burden by adjusting fiscal policy (Hejie ZHANG, 2014: 54-185).

**No existence of the reasonable range of both macro tax burden per GDP and the ratio of private savings per fiscal income for China's government.** Although difference resources of economy, politics and populace among countries decide different quantity standard of the suitable scale of fiscal revenues per country, but it is common, which is determined by objective requirement of economic and social development, for every country to choose fiscal revenues scale of moderation and appropriate amount. Thus, it possesses its objectivity that there is the optimum or optimal fiscal revenues scale (Yao Shaouxue, 2003).

Some researches revealed that China's macro tax burden per GDP and the ratio of private savings per fiscal income didn't exist in the reasonable range, for example, Hejie ZHANG and Lu LI (2015) got the sustainable range between priority and most of fiscal revenues by GDP: [15%, 22%), and the sustainable range between priority and most of private savings by fiscal revenues: [2.6, 0.02), using the data 1981-2011 in China.

## **Policy implications**

It is not possible here to present a systematic analysis of policy issues for which can deal with both equilibrium development of China's economy and its economic growth. I will, however, list some of the major areas of applications with a brief statement of the policy implications.

The extent to which the growth of the macro tax burden has outstripped the GDP growth during the past 20 years means that now the reverse must happen. This unusual set of abnormal supernal macro tax burden raises scientific questions as well as questions of public policy. What are the prospects for Chinese economic reforms? What are the future research directions?

**China's government Pursuing reasonable macro tax burden.** China's government should gradually reduce abnormal supernal macro tax burden, and pursue the sustainable range between priority and most of fiscal revenues by GDP and the sustainable range between priority and most of private savings by fiscal revenues in order to reach equilibrium development of China's economy, and promote the economic growth.

**Future research directions.** First, reasonable range, for China's macro tax burden to satisfy both economic growth and economic transformation and upgrading at the same time, should be measured. Second, it is possible that the route of China's modern financial and taxation system are that, ① to determinate the optimal range of satisfying macro tax burden of

economic growth and sustainable development at the same time so that determination of the gross of macro tax burden; ② to determinate the dividing ratio between central and local governments' tax while reforming tax system; ③ to determine tax amount of different tax categories, such as how many amount of corporate income tax, individual income tax and value-added tax based on scientific foundation? Behold, maybe future frame of Public Finance theory and practice propose I!

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