Abstract

Title: The Impact of Fiscal Decentralization on the Tax Effort of China’s Local Government after 1994

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Key Words: Fiscal Decentralization, China, Tax effort

The purpose of this study is to investigate the effect of fiscal decentralization on the tax effort of China’s local government after the Fiscal Reform was implemented in 1994. This study defines the tax effort as the ratio of the tax revenue of local government to its tax capacity, which is measured by per capita income, GRP (gross regional product), TTR (total taxable resources) and RTS/R (the representative tax system with regression analysis). Using official panel data for 31 provinces/cities during the 1996-2004 period and the two-way fixed effects model with different tax effort indices as the dependent variable, the primary finding of this study is that fiscal decentralization has a statistically significant and positive influence on the local government tax effort in China after 1994. That is to say, a local government with a higher degree of fiscal autonomy might put more effort into tax collection than its counterparts with a lower degree of fiscal autonomy.

Keywords: China, Fiscal decentralization, Tax effort

JEL Classifications: C33; H11; H77