

Background Report

International Conference on Building up Public Service Systems in China

China Institute for Reform and Development

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Since June 2005, China Institute for Reform and Development has put forward the following ideas with regards to the changes of public demands and government transformation.

(1) In comparison with that of 27 years ago, there are currently two increasingly prominent contradictions in China as follows: first, contradiction between the rapid economic growth and the unbalanced development and the restriction of natural resources; secondly, the contradiction between the rapid growth of demands for public services and the absence of public services and the inadequate provision of basic public goods.

(2) The changes of the social contradiction bring China's reform and development to a new historic starting point. In the face of the two prominent contradictions, two key objectives have been identified in the fortification-assaulting reforms in China: the first objective is to further improve socialist market economic system; and the second one is to speed up the establishment of socialist public service system.

(3) To deal with the two increasingly prominent contradictions, government needs to do a good job in its two functions: one is to further promote the market-oriented reform and change the economic growth mode from government-dominated one to market-led one. The second is to intensify the position of government as major public service provider so as to speed up the establishment of public service-oriented government.

On the basis of the above ideas, this background report attempts to present the

background, objectives and tasks of establishing and improving public service system in China during the 11th Five-year Plan for National Social and Economic Development.

I. Based on the changes of social contradictions in China, the establishment and improvement of public service systems should be regarded as one of the basic objectives in the fortification-assaulting reforms.

1. As a result of over 20 years of reform and opening up, China has achieved a lot in the provision of private sector. And thus China changed from a country with moderately sufficient food and clothes provided to her population to a development-oriented country. Profound changes have taken place to China's social contradictions.

In June 2005, CIRDC proposed that the period where the GDP per capita in a country increases from 1,000 dollars to 3,000 dollars is also a period of rapid expansion of demands for public services in that country. China now is in a key period in which a subsistence-based society is changed to the development of overall well-off society, and a key period in which the traditional agricultural society is transforming to an industrial society.

The 3rd Plenary Session of the 11th CPC Central Committee in December 1978 marked the beginning of China's reform, from which to the middle of 1990s is called the first stage of reform. The major social contradiction in China in this stage is the contradiction between the increasing need for materials and cultural development and the backward social production. They can be seen in the social transformation from a poverty society to a subsistence-based one and the fact that the private demand is the main trend of economic and social development. Reform was centered on these changes. Private demand refers to the demand of individual for food, clothes, household appliances and other consumption products. These demands can be exclusively met through market competition. In the first stage of reform, China

followed the path of market-oriented reform with enterprise reform as the focus, greatly improving the production efficiency in the areas of private production, and addressing the issue of provision of private products in short time, which enables the private production from being in shortage to surplus, and thus the food, clothes and household appliances are of high quality with low price. The major achievement of market-oriented reform in this stage was that the demands of individual are satisfactorily met and all have access to adequate food and clothes. According to the Engel's coefficient for China's urban residents, 2/3 of the income of them was used to buy food in 1978 while in 1995 the amount of money used for food was less than half of their income, and that in rural areas reduced to less than 60%.

Table 1: Improvement of Chinese people's life since reform and opening up

Engel's coefficient	1978	1995	2001	2002	2003	2004	2005
Urban household (%)	57.5	49.9	38.2	37.7	37.1	37.7	36.7
Rural household (%)	67.7	58.6	47.7	46.2	45.6	47.2	45.5

Source: Revision based on the Yearbook of National Statistics Bureau (1978-2005)

From the middle 1990s to present is the second stage of China's reform marked by the transition from a society with adequate food and clothes to development-oriented society. In the new stage, China is confronted with two remarkable contradictions: first, contradiction between the rapid economic growth and the unbalanced development and the restriction of natural resources; secondly, the contradiction between the rapid growth of public demands and the absence of public services and the inadequate provision of basic public goods. The second contradiction arrests broad concerns these years. Since 1995, the increase of demands for public services such as education, medical care and social security saw a turning point in their growth. The growth rate surpassed the rate of private demands growth for the first time. Especially within the 6 years starting from 1995, the average growth of public demand per year increased by 2 percentage, the growth in one year is equal to the total growth in the

past 5 years. According to table 1 above, in the 17 years between 1978-1995, the Engel's coefficient of China's urban residents decreased by 7.6% while that of rural population 9.1%; since 1995, the pace of Engel's coefficient decrease has been sped up. In 10 years time between 1995-2005, the Engel's coefficient of China's urban residents decreased by 11.2% while that of rural population 22.2%, more than the total in the past 17 years. All these statistics show that more expenditure of China's urban residents will be used in the public services with close connection to the development of themselves. The public demands in China will enter a period of overall rapid growth.

2. In terms of the changes of social contradictions in China, the overall rapid growth of demands for public services starts to become the driving force and source of pressures in the reform and development in the new stage in China

On July 19, 2005, professor Chi Fulin, the executive president of China Institute for Reform and Development, a Hainan-based think tank in China, pointed out in a published article in Guangming Daily that it is very outstanding issue that the contradiction between overall growth of public demand and the shortage of public goods and absence of public service provision. However the key issue is that the function of government in providing public service is relatively weak, the major resources and most fund have not yet been invested in social development and provision of public goods; what is worse is that the government has no keen understanding on the urgency in expanding and strengthening the function of public service provision. In review of the actual situation, China's public service and public goods provision are confronted with serious challenges: the cost of reform has to be covered and the inadequate investment in public service historically need to be addressed on the one hand, on the other hand, the new situation in economic and social development need to be studied and the new contradiction and problems need to be addressed. That is to say, due to the double pressure from institutional transition and economic and social transformation, the provision of public goods and public

services are in great shortage, and the incompatibility between the two has been the outstanding contradiction and major issue in China's economic and social development.

(1) Due to the comparatively serious income distribution gap and the tendency of continuing to expand, the vast social members' basic public demands on narrowing the income gap and carrying out social income redistribution are more intensive and urgent than any other time in the history. China has become one of the countries with relatively serious income distribution gap. In recent years, the poor-rich gap is not narrowing. Instead, it tends to expand. A certain degree of polarization between the rich and the poor is formed. Due to some statistics, at present, the property of 50 rich people in China equals to the annual income of 50 million farmers, while the property of 3 million rich people equals to two-year net income of 0.9 billion farmers. According to the Issue 4, 2003 of the "New Fortune", the total property of 400 rich people in China is valued RMB 303.1 billion, which is three times the GDP of Guizhou Province in 2001. The urban-rural gap is very serious in China too. In 1985, the income of urban areas was only 1.86 times that of rural areas, while it increased to 3.21 times in 2004. If such factors as social security, public health care and compulsory education are included, it's estimated that the real urban-rural gap at present may reach 6 times. What's worse, the urban-rural gap tends to expand. In recent years, the income distribution gap shows a tendency of rapidly expanding. Let's take Jiangsu Province as an example. In urban areas, 10% of the highest per capita disposable income of the residents was 5.39 times of the 10% of the lowest per capita disposable income in 2000, while it increased to 9.91 times and to 10.71 in 2003 and 2004 respectively. When it comes to the income gap between different industries, the ratio between the highest income and the lowest income was 1.3 times in 1978, while it increased to 6.1 times in 2003.

(2) Compulsory education and public health care have become important public demands of the majority of social members at present, and such demands are more

intensive than any other time in the history. When formulating the 8th five-year plan, China undertook to spend 4% of the GNP on education before 2000, which was close to the average level of the developing countries in early 1990s. However, the real situation was that the funds for education in the central government budget only accounted for 3.28% of the GNP by 2003, which was 0.4% lower than that in 2002. This proportion in 2003 was much lower than the proportion of 4.27% in Thailand in 1998. According to the Human Development Index released by UNDP in 2003, China ranked No.104 among 175 countries. In terms of public health care, the problems are more prominent. The figures released by a leader of China's Ministry of Health last year drew broad attention. He pointed out that half of the farmers can't receive treatment when being ill because of no insufficient money. In 2003, the per capita net income of rural households was RMB 2622.2, while the per capita cost for being hospitalized for one time was RMB 2236. That is to say, the money the farmers struggled to earn in one year can only afford the cost for one people to be hospitalized for one time. According to the figures released by Gao Qiang, Minister of the Health Ministry, in 2005, 44.8% of the urban population and 79.1% of the rural population did not have any health care security. In the Health Financing and Distribution Equity Index released by the WHO in 2000, China ranked No. 188 among 191 countries and regions. The education and health care fee increases too fast. Some experts point out that according to the general international college school expenses standard, the proportion of tuition in per capita GDP generally is about 20%, while the college tuition (including the expenses for living in the dorm) in China is close to 80% of the per capita GDP. In recent years, the college tuition is 25-50 times higher than that in 1989, while the real income of urban residents at the same time only increases by 2.3 times. In addition, the medical and treatment expenses increase rapidly in recent years, with two-digit growth in outpatient service cost and hospitalization cost. Education and health care cost increase much faster than the increase of the disposable income of the resident households, and thus has become a great pressure on most families.

(3) In China's economic and social transitional period, employment and social

security have become the important public needs for the whole society. China is confronted with great pressure from unemployment. As the economic development will inevitably lead to the adjustment of economic structure and due to the deepening of the SOEs reform and the existence of large rural surplus labor force, the unemployment situation in China is very tough at present and the situation will continue in the coming several years. First of all, the number of laid-off employees from SOEs will reach 40 million. Some experts estimate that the real laid-off population in China has actually exceeded the international alarm level of 12%. Furthermore, there are nearly 10 million urban residents newly entering the working-force every year, and there are as many as 100 million rural surplus labor force will move to the urban areas in the coming 10-20 years. So the pressure from unemployment will become the increasingly outstanding social contradiction and problem in the process of China's economic and social development in the future. Contradictions and problems related to social security in China will become more and more prominent. First, the inadequate input in social security is too big and tends to increase year by year. Before 1993, the input from SOEs in social security was only about 300 billion, while it increased to about 1,900 billion in 2002. Some expert estimates that the total input in social security has reached about 3,000 billion. Second, the current social security is following a pay-as-you-go system. As China has begun to enter a stage with more and more aging population, in the coming several years, problems related to social security will become more outstanding. Third, the social security system in China needs to be improved, its social coverage is not wide enough and social management level is still low.

(4) Public safety has become the needs of the general public. In the process of China's economic transition, the reorganization of social order is seriously backward; social creditability is commonly lacking; different kinds of markets have not been standardized; the government's function in market supervision and management has not been in place. Therefore, problems related to production safety, health safety and foods safety are still rather outstanding. The problem of safe production has drawn

broad attention. In 2004, there were 804 thousand production accidents in the whole country, causing 136,755 deaths; there are more than 0.7 million people are injured or become disabled in the accidents every year, causing unhappiness to nearly million families. Besides, nearly 0.7 million people are suffering from various occupational diseases every year, and the number of employees suffering from occupational diseases is more than 25 million. In recent years, mine accidents happen frequently in China. There were 51 extraordinarily serious mine accidents in 2003, causing 1,061 deaths; in 2004, there were 42 extraordinarily serious accidents, with 1,008 deaths; between January 1 and August 21, 2005, there were 33 extraordinarily serious accidents, causing 951 deaths, increasing by 43.5% and 134.2% respectively over 2004. Food safety has become common concern of people. The most basic need of human beings is the need for living. The prominent problems in real life are that the markets are flooded with various fake or inferior quality commodities; the common people hate bitterly the inferior quality meat, poisonous rice and noodles, deteriorating milk and milk powder. The problem of food safety has become the common concern of the whole society.

(5) Along with the change of interest relations, reasonable and proper interest expression and appealing has become the public needs of vast social members, especially the disadvantaged group. Along with the rapid economic growth and the deepening of reform, China has entered a critical period for comprehensively adjusting the interest relations. Due to the expansion of income distribution gap, problems related to interest relations become more common and complicated. The proper and comprehensive handling of interest relations is dependent on the government's efforts on implementing social redistribution and the establishment of effective mechanism for interest expression and interest appealing. In this aspect, there are three problems calling for solution. First, the expansion of normal channels for interest expression and interest appealing. According to the current situation, the role of letter and complain office under the government at different levels is limited, which makes it hard to meet the increasing need for petition in the form of letters and

visits. At present, unfortunately some local governments still take measures to prevent the people from expressing their opinions. Second, the establishment of different interest expression mechanism for different interest groups. The deep change of China's interest relations can be seen at the shaping up of different interest groups. Therefore, different interest representatives are needed to express the interest demands for their groups in an organized way. In the case of regulation for the real estate sector these years, we can see that strong groups and weak groups have different interest demands. Furthermore, the strong groups express their interests in a very violent way, while the median and low income groups do this in a rather weak way. The lack of a mechanism for different interest groups to express their interests in an organized and rational way leads to a large number of group accidents. Third, how to coordinate interest relations according to law has become a significant problem which calls for urgent solutions. As legislation is backward, the common people usually come to the government instead of court for help when conflicts prop up. Under this circumstance, it's hard for the social members to protect their proper and legal rights and interests through law.

3. Proceeding from the actual contradictions in China, the establishment and improvement of socialist public service system are identified as one of the basic objectives for fortification assaulting reforms by following the requirement for putting people first while improving the socialist market economic system.

In February 2006, Professor Chi Fulin, CIRD's Executive President, pointed out that we need to set up two key objectives for fortification assaulting reform to adapt to the change of social contradictions: to further improve the market economic system and speed up the establishment of public service system.

Specifically speaking, the provision of public services is inadequate, the structure is not sound enough, which highlights the poor performance of provision mechanism and institution for public services. Generally speaking, due to the lack and loss of

modern budget system, the imperfect public auditing and the unreasonable separation of administration system and public financial system between the central government and local governments, the input in basic public services provided to the whole society is not enough, with unfair distribution and low benefit. The model in planned economy period continued to be followed with regards to the management systems, namely, lots of government departments play the roles as asset owners of non-profit organizations, policy makers, payers and supervisors and managers at the same time. The basic defect is that it lacks effective accountability mechanism. Serious conflicts exist in the government's multiple roles, which restrain the development of public service undertakings and the improvement of efficiency. Second, though seen from the surface, relative responsible organizations are set up in different social public service areas, the responsibilities of the managing sectors are actually neither clear nor reasonable. Dislocation, being offside and defaulted of the government function is very common. The rigid, crossing and un-transparent management system give rise to such problems in public service currently as unreasonable pricing, low quality and efficiency and inadequate coverage.

(1) To take the provision of basic and secure public goods as the main task in building up public service system during the eleventh five-year plan period. In the coming years, it is urgent to solve the following five problems: first, employment and reemployment. It needs to strengthen the government's public service function in promoting the employment and build up multi-layer employment service system; second, public health and elementary healthcare security. Currently, it is an urgent task to redesign the system and provide people with basic public health and healthcare services; third, compulsory education. To provide completely free compulsory education to people is a basic requirement all walks of life have on the government in the eleventh five-year plan period; fourth, social security. According to the principle of low level but wide coverage, efforts should be made to bring all social members into the social security system; fifth, public safety. Greater efforts need to be made to solve the problems related to public safety, including production, health, food, etc. At

present, it is an objective fact that the number of disadvantaged group is increasing and their interests are frequently damaged. And this has become a focal issue of social fairness and justice. Therefore, in the eleventh five-year plan period, emphasis should be laid on properly solving problems related to the disadvantaged group and building up channels for their interest protection and interests appealing.

(2) Important breakthroughs need to be made in establishing a unified public service system in urban and rural areas in the eleventh five-year plan period. It is important to break the rural-urban dual structure so as to effectively narrow down the gap between the urban and rural areas. During the tenth five-year plan period, the unification of tax system in urban and rural areas was realized, which is a historic breakthrough. If substantial progress is made in setting up urban-rural united public service system during the 11th five-year plan period, positive impact will be made on the construction of new socialist countryside. It is encouraging that the central government has decided to make the new-type cooperative healthcare universal in the rural areas and popularize and consolidate the nine-year compulsory education in rural areas before 2010.

(3) To fully evaluate the importance of basic public goods provision in alleviating the income distribution gap during the 11th five-year plan period. According to the actual situation, the provision of basic public goods can effectively narrow the gap between the poor and the rich. For instance, the education and healthcare expenditure has been increasing fast for many years, which is much faster than the growth rate of the disposable income of the middle and low income family and becomes one of the important factors widening the gap between the poor and the rich. Some scholar estimates that among all factors resulting in income distribution gap, education factor accounts for about 20%. According to the real income gap between the urban and rural areas, this proportion will be bigger. Therefore, to gradually establish urban-rural unified public service system will provide effective route to bridge the urban-rural gap and solve the three-dimensional rural issues.

II. During the 11th five-year plan period, the basic rules in providing public goods need to be followed and the basic objective of establishing public services system need to be identified by looking at the actual situation in China.

On December 26, 2005, “Guangming Daily” published CIRD’s proposal report “Adapting to the Change of China’s Public Demand and Strengthening Government’s Function in Social Redistribution”. It’s pointed out in the proposal report that China needs to establish a modern public service system with government’s guidance, social participation, appropriate competition and forceful supervision and management.

1. Establishing reasonable decision-making mechanism for public service provision and enabling the growth of public service provision to be coordinated with the growth of economic and financial strength

According to the experience of Nordic countries, it’s not a fact that a perfect public service comes after a rapid economic growth, but that public service develops at the same time with the economic development. The proper excessive development of public service will not restrain the economic development. Instead, it is helpful for people to innovate will encourage them to accept challenges and bear responsibilities and promote substantial economic growth. The fundamental route for China to achieve coordinated economic and social development is to gradually increase the expenditure on public service year by year along with the economic development and improve the quality of public service so as to provide basic and secure public services to all social members.

Take China’s healthcare expenditure for example, the expenditure on financial and health program grows much slower than the financial expenditure and GDP. From 1991 to 2004, the GDP increased by 6.31 times, financial expenditure increased 8.38 times, while the expenditure on financial health program only increased by 5.8 times.

Table 2: Expenditure on Financial and Health program Grows much Slower than the Financial Expenditure and GDP

	GDP (100 Million RMB)	Financial Expenditure (100 Million RMB)	Expenditure on Financial Health Program (100 Million RMB)	Expenditure on Health Program/ Financial Expenditure
1991	21618	3386	86.4	2.55%
2000	89468	15887	272.2	1.71%
2004	136515	28361	501.1	1.77%
2004/1991	6.31	8.38	5.80	

Sources: calculating based on statistical yearbook of National Bureau of Statistics of China (1991-2004)

In the past 20 years, the payment for public service has witnessed a process in which the responsibility for paying the public services shifted from the government to the individuals. According to the change of healthcare expenditure structure, since the reform and opening up, the proportion of residents' expenditure on healthcare increases very fast, from 1/5 of the total healthcare expenditure in 1980 to 3/5 at present. The proportion of resident expenditure on healthcare per capita also tends to increase, being the third biggest expenditure following food and housing. At the same time, the government's expenditure on healthcare decreased from 36.2% to 17.2%, about 1% decrease on average every year.

Table 3: Total Healthcare Cost in China (1990-2004) and Expenditure Proportion

	1990	1995	1997	1998	1999	2000	2001	2002	2003	2004
Total healthcare cost (100 million)	743.0	225710	3384.9	3776.5	4178.6	4764.0	5150.3	5790.0	6584.1	7590.3
Government's expenditure on health care (%)	25.0	17.0	15.4	15.6	15.3	14.9	15.5	15.7	17.0	17.0

Social											
expenditure	on	38.0	32.7	27.7	26.6	25.5	24.5	24.0	26.6	27.2	29.3
health care (%)											
Individual											
expenditure	on	37.0	50.3	56.9	57.8	59.2	60.6	60.5	57.7	55.9	53.6
health care (%)											

Sources: statistical yearbook on healthcare (1990-2004)

As the government at all levels lays too much emphasis on economic growth and to a great degree ignore the objective of providing public services, the social development lags seriously behind the economic development.

At present, China has raised the scientific view of development and emphasizes the coordinated development between economy and society. Furthermore, the requirement for expanding government function in public services has been pointed out. However, as the relative decision-making mechanisms are not perfect, it's hard to use the public resources for the provision of public goods and public services. A same decision-making mechanism needs to be formed between the central government and government at different levels to coordinate the public service development and economic development. According to the real situation in China, public service oriented performance concept needs to be set up, and the democratic decision-making mechanism in financial budget management needs to be strengthened.

2. Establishing participatory mechanism with socialized public service provision, standardizing the relationship between the government, non-profit organizations and social organizations

One of the most obvious characteristics of modern public service system is that the public service is socialized, namely, to take public demands as the orientation, attract all walks of life to participate in providing and improving the public services,

encourage various civil society organizations to invest in the development of public welfare programs and provide social service, set up government-led public service provision structure with the participation of different social actors and realize the diversification of public service provider and provision mode.

First, to clarify the government's leading role in decision making and planning concerning public service provision, strengthen the government's overall planning capacity in public service provision and strengthen the government responsibilities; to change the reality that the sectors are separated from each other in the process of public service provision and the interests of the sectors are limited.

Second, while giving play to the leading role of the government, to set up the management system with public service decentralization and mobilize various social actors to actively participate in the public service provision. Public service has a very wide coverage and most of its content is directly related to people's life and health security, employment security, income security, etc. Furthermore, along with the economic and social development, people will continue to have new demands, such as healthy and comfortable living environment, rich and colorful cultural education, personality development, etc. Therefore, as the natural and main provider of public service, the quality of the public service provided by the government has important influence on maintaining the whole society's stability and safety, promoting coordinated economic and social development and improving the government's reputation. Nevertheless, as different limitations is existing in the government's operation, in terms of providing public service, it is hard to meet people's high-quality and increasingly diversified public demands only by relying on the government. Therefore, it needs other social actors to participate in the public service provision to make up the defects of the government and give full play to the advantages of the actors to improve the quality of the public services together.

Third, to standardize the relations between the government, non-profit organizations and social organizations and give play to their advantages. Under the traditional

administration system, the government always acted as an all-round government, which can be seen from the government's interference in all social matters. In the economic field, when implementing the highly centralized planned economy, the government is the main social resources distributor; in the social field, the government carries out strict administration control and restrain the development of social organizations; in the culture field, the government invest in developing various cultural programs. This governance model of "big government and small society" fails the government in doing as much as it would like to do and leads to an extremely weak society.

Fourth, the government has both obvious advantages and disadvantages in providing public service. It can maintain equity through compulsory means. However, it can't meet the diversified public needs and has the characteristic of low efficiency shared by all bureaucratic apparatus. In China's next-step reform, we should give play to the government's advantages. That is to make sure the compulsory provision of basic public goods and realize the equity. In terms of solving the limitations of the government, on the one hand, the separation between the governmental and non-governmental functions and non-profit organization reform need to be sped up; on the other hand, great efforts need to be made to develop the civil society organizations and enable them to play an important role in satisfying the diversified public needs and improving the efficiency in providing public services. It needs to set up multi-center governance structure for the cooperation between the government and social organizations and give play to the role of civil society organizations in providing public service to form the partnership between the government and civil society organizations. Furthermore, it needs to set up public service mechanism with balance between the responsibilities of the government, society and individuals.

3. Establishing government-led and multi-channel investing and financing mechanism for public services

The experience of Nordic countries shows that an effective public service system

needs requires government to play a leading role and introduce the market mechanism, making use of the social funds in providing public services. For example, Norway introduces the private capitals into medical care industry, which to a great extent improves the medical care service quality and reduces the government's pressure. In Sweden, private companies are allowed to enter the field of public education at the same requirement. Private schools and kindergartens are not allowed to charge any fees or adopt different enrolling rules, just like the situation in public schools. Private schools get the same amount of funds from the local government as that for the public schools, as like they are run by the local government. In China, we need to give play to the leading role of the government in providing public services and strengthen the cooperation between the social organizations and the initiative of the individuals.

First, to speed up the reform of SOEs and gradually withdraw the state-owned assets from competition industries and use them at the public service fields. In this way, the inadequacy of financial funds in public service fields for a very long time may be effectively alleviated.

Second, allowing social organizations to invest in some competitive public goods to reduce the burden on the government and enable the government to invest more funds in public services such as basic education, health, culture, etc, and improving social security system. The government may clarify the quantity and quality standard for public service provision, then attract private sectors and non-profit sectors to participate through various methods with market mechanism as the lever and finish the task of providing public services in competition.

Third, a series of incentive mechanism need to be established to encourage and support social capital to enter public services areas and to establish and improve the franchise operational system. The models of outsourcing by contract and coupon are adopted to enhance the socialization of public services, to lower the cost of public services and improve the quality of public services.

4. Establishing modern supervisory mechanism for public services

The provision of public service in China continues to follow the mode prevailed in the period of planned economy in terms of management. Many government departments play multiple roles as asset owners, policy makers and supervisors of the properties of public services units in China. There are interest conflicts among these roles. For example, the too close relationship between supervisors and those supervised makes the regulations of supervision hard to be executed and the execution process lacks fairness. All of those mentioned above make the process of public service difficult to be questioned, hampering the development and efficiency improvement of public service units. The process of public service is not transparent and open, leading to a large number of rent seeking behaviors. Problems disclosed in the “auditing storm” at recent years are cases in point. For instance, the fund for education and water conservancy was diverted to the purpose of incomes and welfare of government departments.

Therefore, we must start from the following aspects to establish modern public service mechanism.

First, we should separate the function of decision makers, executors and supervisors in public service provision. The Public Service Committee of Haidian district of Beijing has done active experimental research on these aspects. The Public Service Committee is responsible for making decision. The reformed public institution is responsible for execution. The former government departments of the public institution are responsible for supervision.

Secondly, we should make the process of public service provision transparent, so as to realize the public supervision. In 2003, Dayao of Yunnan Province was consecutively hit by earthquake of 6.2 and 6.1 degree. After the earthquake, governments and government departments at different levels of Yunan received a total relief fund of RMB 366.62 million. After the edition, some departments of finance, civil affairs,

construction, education and sanitation misused RMB 41.11 million.

Thirdly, we must establish the mechanism of expert consultancy and experts hearing on public service. Many public services are very professional and the outsiders can hardly get effective information for supervision.

5. Establishing an equal mechanism for both urban, rural areas and different regions in public services provision

Equalization of public service means that government must provide the social members with equal basic public goods and public service with different standards in different periods. Especially on the provision of basic public goods, we should establish correspondent transfer payment system, making the villages and remote areas enjoy equal service as urban and developed areas. According to the current situation in China, gap between urban and rural areas in terms of public service is rather wide. If measures are not taken in time to handle this problem, the gap will continue to widen.

Taking public service as an example, the disparity between urban and rural areas is already very big.

Firstly, in terms of investment in public healthcare, the absolute difference of average cost per capita between urban and rural areas has been increasing since 1990, from 120 Yuan in 1990 to 664 Yuan in 2002, while the relative difference of average cost per capita between urban and rural areas experienced the process of “Decrease – Increase – Decrease”. In 1997, the difference was three times. In 2000, it was 4 times. In 2002, the difference decreased to 3.5 times. The difference of spending in this area between urban and rural areas is also the main reason causing the difference of health between urban and rural residents. (See Chart 1)

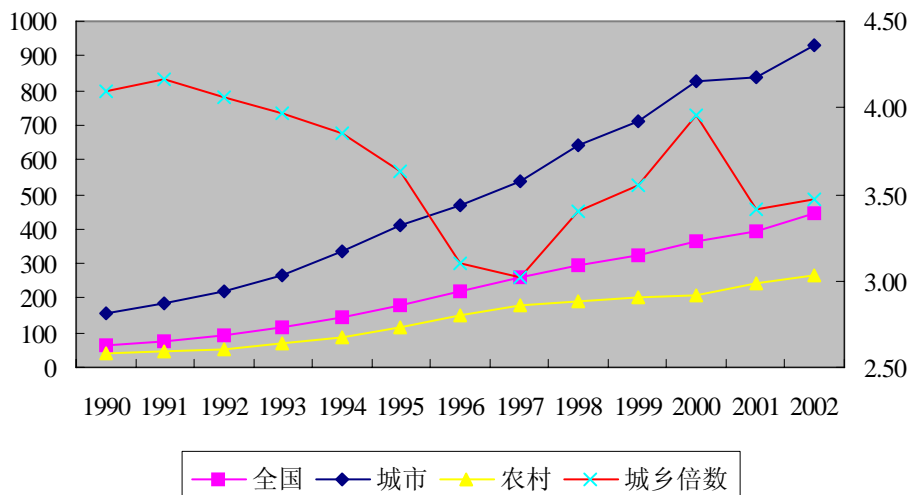


Chart 1: Difference of cost for public health per capita in urban and rural areas (1990—2002)

The spending in public healthcare is quite different in different areas in China. In 2003, the highest regional cost in public healthcare is 13 times that of the lowest one.

Realizing public service equalization in the whole country is a needed public policy. It is an important and common duty of the central and local government to provide basic public service to residents in different areas. The financial capacity of local governments is quite different. The rich local governments will get less support from central government, while poor local governments will get more, so as to help the poor places reach the lowest level in terms of public service.

III. Accelerating government transformation according to the basic requirement for improving public services system

In July 2005, CIRD proposed that in the face of two prominent contradictions, two key objectives of government transformation must be established. The first objective is to transform the economic growth pattern from government-led pattern to market-led one. The second objective is that the government must strengthen its controlling and leading roles in public service. Therefore, providing basic public

service is the task of the government. Especially at the beginning of the establishment of public service system, government should play a leading role. After the establishment of the whole public service system, government still plays a leading role. It is a kind of government-led construction of public service system.

1. Realizing the transformation from economic development-oriented government to public service-oriented government, strengthening government's responsibility in providing basic public service

The three main parts of government expenditure at present are expenditure on economic development, on education and government administration. Though the expenditure on economic construction is decreasing gradually, the spending of government administration is increasing rapidly, and that of education increases difficultly. National financial income increased from 113.226 billion Yuan in 1978 to 2171.525 billion Yuan in 2003, 19.18 times increase. Gross financial expenditure was increased by 21.9 times from 1978 to 2003. However, the spending of government administration increased from 5.29 billion to 469.126 billion Yuan, increased by 88.5 times. The proportion of administrative spending is getting larger, from 4.7% in 1978 to 19% in 2003. Since 1978, the spending for economic construction has been decreasing in the proportion of total financial spending, from 64% in 1978 to 30% in 2003. The spending for education has not changed in the proportion of total financial spending from 1992 to 2003, remaining between 26% and 28%.

Table 4: National Financial Expenditure (Unit: 100 million yuan)

Year	Financial Revenue	Balance of Payment	Total Financial Expenditure	Expenditure on Economic Development		Expenditure on Culture and Education		Expenditure on National Defense	Expenditure on Government Administration		Other Expenditure
				Expenditure	Proportion	Expenditure	Proportion		Expenditure	Proportion	
1978	1132.26	10.17	1122.09	718.98	64%	146.96	10%	167.84	52.90	4.7%	35.41
1980	1159.93	-68.90	1228.83	715.46	58%	199.01	16%	193.84	75.53	6.2%	44.99
1985	2004.82	0.57	2004.25	1127.55	56%	408.43	20%	191.53	171.06	8.5%	105.68
1989	2664.90	-158.88	2823.78	1291.19	46%	668.44	23%	251.47	386.26	13.7%	226.42
1990	2937.10	-146.49	3083.59	1368.01	44%	737.61	24%	290.31	414.56	13.4%	273.10

1991	3149.48	-237.14	3386.62	1428.47	42%	849.65	25%	330.31	414.01	12.2%	364.18
1992	3483.37	-258.83	3742.20	1612.81	43%	970.12	26%	377.86	463.41	12.4%	318.00
1993	4348.95	-293.35	4642.30	1834.79	40%	1178.27	25%	425.80	634.26	13.7%	569.18
1994	5218.10	-574.52	5792.62	2393.69	41%	1501.53	26%	550.71	847.68	14.6%	499.01
1995	6242.20	-581.52	6823.72	2855.78	42%	1756.72	26%	636.72	996.54	14.6%	577.96
1996	7407.99	-529.56	7937.55	3233.78	41%	2080.56	26%	720.06	1185.28	14.9%	717.87
1997	8651.14	-582.42	9233.56	3647.33	40%	2469.38	27%	812.57	1358.85	14.7%	945.43
1998	9875.95	-922.23	10798.18	4179.51	39%	2930.78	27%	934.70	1600.27	14.8%	1152.92
1999	11444.08	-1743.59	13187.67	5061.46	38%	3638.74	28%	1076.40	2020.60	15.3%	1390.47
2000	13395.23	-2491.27	15886.50	5748.36	36%	4384.51	28%	1207.54	2768.22	17.4%	1777.87
2001	16386.04	-2516.54	18902.58	6472.56	34%	5213.23	28%	1442.04	3512.49	18.6%	2262.26
2002	18903.64	-3149.51	22053.15	6673.70	30%	5924.58	27%	1707.78	4101.32	18.6%	3645.77
2003	21715.25	-2934.70	24649.95	7410.87	30%	6469.37	26%	1907.87	4691.26	19%	4170.58
From government data											

From the trend of domestic situation, the government's expenditure on public service grows far slower than the revenue. As the government pays main attention to economic development, the expenditure on public service increases in a comparatively slow way. We can see it from medication and sanitarian. From 1991 – 2004, GDP in China was increased by 6.31 times, and the finance increased by 8.38 times. However, the increase of spending on public healthcare was only 5.8 times.

From the view of international situation, compared with US and other developed countries, our government hasn't yet utilized sufficient spending on public goods and public services. The spending on government administration and economic construction in China accounts for 50% of the total spending, while the proportion in the US is just 17%. On the other hand, the spending on social security, education and public healthcare takes up 25% of the total spending in China, while it is 75% in US.

Governments of every countries, especially developed countries, widely involve in such public service fields as compulsory education, preliminary medical care, endowment insurance, unemployment insurance, support of the poor, redistribution of national income, and environment protection, where the market can't play its role or fully plays its role. Providing public service becomes the main and core function of the government. Government spending has been increasing in the proportion of GNP. In EU countries such as Germany, France and Britain, the proportion of government expenditure in GDP increased from 25% in 1935 to 54% in 1995. It can also be seen from the two important indicators, including the proportion of total social security expenditure in GDP and in total public service expenditure, that providing public service has become the main function of the government. According to International Labor Organization's report in 2000, the proportion of total expenditure on social security in GDP was 30.1%, 33% and 34.7% in France, Denmark and Sweden respectively, and the proportion of total social security expenditure in total public service expenditure was 55.3%, 52.5% and 50% respectively. These countries regard the governmental public service not only as an important part of social development and improvement, but also as the important impetus of economic development. Some countries stipulate government's duty of providing public service in law. Some countries also treat public products provision as an important part of national development plan, so as to coordinate the public service with economic development.

Table 5: Comparison of China and US Public Service Spending in 2003¹

Project	China	US
Public Administration	19	12.5
Economic Development	30	5.0
Public Service and Social Administration	26	75.0

Others	25	7.5
Rapidly Increasing Projects in Spending	Spending of Administration	Social Insurance and Welfare
Slowly Increasing Projects in Spending	Social Insurance, Education, Medical Care and Sanitary	Spending of Administration

To transform from economic development oriented government to public service oriented government, China needs to: firstly, adjust the objective of achieving high GDP and establish the objective of providing public service; secondly, reduce the expenditure on government administration; thirdly, promote the administration system reform, so as to make the government structure and function fit the requirement of providing public service.

2. Gradually reducing government levels, and establishing responsibility system on public service for central and local government

Since the implementation of tax-sharing financial system in China, the central, provincial and municipal government have been amassing financial resources. As financial resources are going to the superior central, provincial and municipal governments, the duty and responsibility are going down to the subordinate governments. As the result, the lower governments are getting more and more responsibilities and having less and less financial resources. The authority of administration and finance is seriously unbalanced. We can make use of the experience of northern European countries in the aspect of providing public service. For example, the Norwegian local governments are mainly responsible for providing labor-intensive service, while the central government is mainly responsible for income redistribution and other public service. The central government of Sweden is responsible for insurance, transferred payment and designing systems and standards for every public service; the county level governments are mainly responsible for

providing medical care service; municipal governments are mainly responsible for providing education service to youth under 18, and service to children and the retired. The municipal governments are also responsible for social welfare, concern of the disabled, the issues of local construction and planning, water and irrigation, cleaning of streets, garbage disposal, and rescuing service; county and municipal governments are jointly responsible for the service of transportation. At present, the spending of county and municipal governments in Sweden accounts for 2/3 of total spending of governments of different levels. Local governments also have the authority to receive financial incomes when they carry the most function of providing public service. Local governments can set their own taxation standard and budget. Central government does not intervene the budget of local government. It only requires equal allocation of budgets. China should reasonably stipulate the administrative authority of governments at different levels in law, so as to avoid the abuse of the authority.

From the view of administration, there are 3 levels of administrative system in most of the countries in the world, namely, central level, provincial level and county level. In terms of public service provision, the 3-level administrative system is the most effective one. There are 5 levels of administrative system in China nowadays: central, provincial, municipal, county, and township.

As there is no stipulation about the municipal government in the constitution of China, we can try to rescind this level of government during the 11th five-year plan period. Some cities govern several counties. This is an unreasonable system with characteristics of planned economy, causing the redundancy of local government. There are too many government departments, overlapped responsibility, redundant personnel, complicated relations in the administrative system, high administrative cost, low administrative efficiency, and heavy financial burden. By the end of 2004, there were 333 local administration units in China. Among them, there were 283 municipalities, accounting for 85%, causing problems between provincial government and county government. The provincial government does not directly govern the

county government because there is a municipal government between them. Taking a medium-sized municipal government for example, there are over 10,000 government employees. The expenditure on salary every year is around 200 million Yuan. The total financial spending plus salary is around 500 million per year. There are 9 million employees in municipal government in the whole country. The spending every year is 130 – 150 billion Yuan. The municipal government wastes a large amount of financial resources. In the system of municipal government governing county government, there are many contradictions due to the interest conflict. This system can't well solve the problem of municipal government governing county government. Municipal government should support the county government. However, the construction of the city relied on the money coming from the counties. In the aspects of allocation of financial resources, investment of construction and project spending, the city always benefits from the system. The county government does not have enough money to spend in the public service.

Rescinding and merging the township governments will be the important point of next adjustment of administrative system. Ministry of Civil Affairs started pushing the reform of township government in 1999. At present, 25 provinces have finished the reform and rescinded and merged 7,196 township governments. This reform is conducted in 6 provinces and autonomous regions in 2006, with a rescinding and merging proportion of 15%. China will adjust the small-sized counties and cities. At present, there are 720 counties and cities with the population of less than 200,000; 314 of them with the population under 100,000. Except the cities and counties in the remote areas, administrative regions in other areas meeting the requirement of rescinding and merging shall promote this reform.

3. Accelerating the construction of public finance, so as to enable the governments of different levels to put the financial resources in public service provision

The main problem facing China's public finance is that the financial resources have not been used in public service, and the structure of financial income is not matched with the responsibility. Since the tax-sharing system reform in 1993, the financial income of central government increases very fast, while the financial income of local government is decreasing consecutively. As local governments bear most of the responsibility of providing public service, the superior governments always can transfer the responsibility to the lower governments.

Table 6: Financial Revenue of Central and Local government and the Proportion

Year	Amount (100 Million Yuan)			Proportion (%)	
	Whole Country	Central	Local	Central	Local
1991	3149.48	938.25	2211.23	29.8	70.2
1992	3483.37	979.51	2503.86	28.1	71.9
1993	4348.95	957.51	3391.44	22.0	78.0
1994	5218.10	2906.50	2311.60	55.7	44.3
1995	6242.20	3256.62	2985.58	52.2	47.8
1996	7407.99	3661.07	3746.92	49.4	50.6
1997	8651.14	4226.92	4424.22	48.9	51.1
1998	9875.95	4892.00	4983.95	49.5	50.5
1999	11444.08	5849.21	5594.87	51.1	48.9
2000	13395.23	6989.17	6406.06	52.2	47.8
2001	16386.04	8582.74	7803.30	52.4	47.6
2002	18903.64	10388.64	8515.00	55.0	45.0
2003	21715.25	11865.27	9849.98	54.6	45.4

To establish public finance in a real sense, China needs to make adjustment in the following six aspects.

First, reducing the expenditure on administration and increase the expenditure on public service. China needs to reduce the administration expenditure which stands high and grows rapidly for many years to provide more funds to public service. According to some materials, in 2004, there were at least 4 million public cars in China, consuming a total of 408.5 billion RMB, accounting for more than 13% of the total financial revenue in China. As for consumption related to public cars, various materials show that more than RMB 200 billion from public funds is spent on dining

and winning every year in the whole country. The total of these two items exceeds RMB 600 billion, almost 20% of the financial revenue (accounting the financial revenue as RMB 3000 billion).

Second, strengthening the county-level finance. In China, it's the government at county level or under county level that provides main public goods and services, providing public services to 70% of the national population, among which rural population takes up more than 60%. The biggest vertical financial breach lies in county and village-level finance, the revenue of which decreased from 31.55% in 1993 to 19.68% in 2000. Since China's implementation of tax-sharing system, the economic condition of county-level finance in some provinces and regions doesn't turn good but continue to deteriorate. According to the research conducted by the National Audit Office on financial transfer funds, the county-level finance in awkward situation in some provinces can be divided into the following types: those who can only afford themselves, those who have to rely on the finance at higher level for living, those who are desperately poor. The self-supporting level of some county-level finance is extremely low. It's hard for them to maintain the normal operation of governmental agencies, let alone supporting the development of social undertakings. A material in 2005 shows that in China's 3,000 counties and municipalities, more than 50% of them suffer from long-term deficit. There were 1,080 counties having difficulty in extending salaries, and about 50%-60% of the towns and villages are unable to make ends meet. The total amount of debt at township level in the whole country is about RMB 1000 billion, about 1/3 of them are resulted from the implementation of nine-year compulsory education.

Third, establishing standardized transferring payment system to promote the equalization of public expenditure among regions. The unfairness of public service provision in China has much to do with the regional difference of the finance. The per capital financial income in Beijing and Shanghai, which have the highest financial income per capita, has exceeded RMB 4,000. The per capital financial income in

Tianjin, Zhejiang and Guangdong is over RMB 1,500, and is over RMB 800 in Liaoning, Shandong and Fujian, while it is usually between RMB 400-600 in other provinces. This has formed an obvious ladder of 4 different per capita financial incomes.

Fourth, gradually making the financial budget and management transparent and institution-based and giving full play to the supervision role of People's Congress. Professor Zhou Tianyong, Deputy Director of the Research office of Central Party School of CPC, points out that at present, the extra-budgetary revenue in the statistics of the government at different levels in China has reached RMB 500 billion, and the off-statistics extra-budgetary revenue is at least RMB 500 billion. The total of this two is more than RMB 100 billion. Most of these come from the income the relative sectors get from land, charge and fines. Some of these funds formed by charges are allocated in every sector of the government without any supervision.

Fifth, handing in the profit of the enterprises to the finance and putting it in to use for the expenditure on public service. Since 1994, SOEs has never turned over the profits to the state as financial revenue. The profits they gain, even those they gain through administrative monopoly, are not turned over to the state as the national public expenditure. The enterprises have free right to use the monopoly profit, and the asset profit, which belongs to the people of the country may become the profit of the enterprises and the sector, which may result in the loss of the whole national interest. In 2004, 136,000 SOEs in the whole country realized a total amount of profit of RMB 736.88 billion, among which the profit realized by enterprise groups directly under the control of the Central Government was RMB 467.31 billion, accounting for 63.4% of the total profits realized by all SOES. In the first half-year of 2005, the central enterprises realized a profit of RMB 298.81 billion. Therefore, it is necessary for them and they also have the capacity to turn over part of the profits to the state.

Sixth, turning over the income gained from transferring the state-owned land and mineral resources ownership to the national finance. It's estimated that the present

value of the land in urban build-up area is not less than RMB 39,000 billion. Even though the tax is levied on the standard of 3%, RMB 1,170 billion can be gained from it, which is far more enough for the expenditure on social security.

4. Speeding up the reform of non-profit organizations with the separation between the governmental and non-governmental functions as the focus and cultivating civil non-profit organizations to form modern public service organizations

Though public goods and services are the responsibilities of the government, it doesn't mean that the government has to provide such things itself, and they are unnecessarily provided by the subsidiary organizations of the government. The government's responsibility is to make sure that the public service is in place and try its best to mobilize the enthusiasm of all social members. In view of the specialty of public goods and services, in modern market economic countries, the situation usually is the state is responsible for the designing and supervision of public goods and services, while the third sector, which is between the state and the enterprises, is responsible for the provision of public goods and services. The third sector, which is also called NGO and NPO, is the main bearer of public goods and services.

There are more than 1.3 million non-profit organizations in China, among which, there are 952,000 non-profit organizations who are responsible for their own expenditure and revenue. Nearly 30 million people are working for the non-profit organizations under the government. More than 70% of the research fellows and 95% of teachers and doctors are working in different kinds of non-profit organizations run by the funds of the government, with an expenditure accounting for more than 30% of the government financial expenditure. These non-profit organizations bear a majority of the provision of China's public goods and services. However, the whole situation is not satisfactory.

By the end of 2004, the registered civil organizations had reached 283,000 in China,

with 149,000 social groups, 132,000 civil non-profit organizations and 902 foundations. The majority of these organizations are providing various public services. For instance, they play an important role in creating employment opportunities, environment protection, poverty alleviation and development, AIDS prevention and treatment, social welfare, community service, humanitarian assistance, etc. However, as the government has no unified legislation on the NGOs, the development of these NGOs is rather backward. There are less than 2.2 NGOs in every 10,000 people in China, which is less than 1/5 of the average level of the developing countries, and is 1/40 of that of America and 1/90 of that of France.

If considering both the non-profit organizations and non-profit civil organizations as the main providers of public services, it's obvious that China has dual-track system in public service provision. The two public service providers, which have almost the same functions, enjoy quite different policy treatment. Non-profit organizations enjoy favorable policies in land and taxation and financial support. The public good characteristic of some organizations is weakened. As it is usually hard for civil non-profit organizations to find a charging authority, lots of them can't get registered. According to the research in different countries, in the gross income of non-profit sectors, products sale and service account for 48.2%, 41.3% is from the government, private donation only accounts for 10.5%. Most of civil non-profit organizations in China are established through civil funds, and they run by themselves. The government gives no necessary support to them. Lots of organizations keep contributing to the charities, while they have to pay taxes as enterprises.

Though the aim of separation between governmental and non-governmental functions is pointed out very early in China, small progress is made in this aspect due to sector interest. Seen from the angle of an administrative region, China keeps the basic model of non-profit organizations in planned economy period. That is to say, public service in one region is responsible by several charging sectors, and the non-profit organizations are managed by these sectors. On the hand, there is no separation

between decision-making, implementation and supervision and management. On the other hand, in view of the planning and reform of public service, the sectors have to draw up the plan and reform them themselves, but it's hard for them to comprehensively design the public service of the whole region. Under such circumstances, in the next-step reform, we need to integrate all public service in one administrative region and establish new coordinated sector for comprehensively planning the public services, enabling the reform to break the restraint of sector interest. Only in this way, can we make substantial progress.

In this aspect, the trial of public service committee in Haidian District in Beijing is an example worth making reference to. The public service committee was established in this district in 2005. In Haidian District, public service committee is responsible for making decisions on public service, the reformed non-profit organizations are responsible for the implementation of the decisions and public service provision, while the government charging authority of the former non-profit organizations are responsible for the supervision and management. In new structure, the public service committee is responsible for the management of the hospitals and the appointment of main leaders, while the hospitals become independent non-profit legal person entity and provide health care service according to the plan and guidance of the public service committee. After this adjustment, the health bureau will be free from its interest relationship between the hospitals, thus carrying out effective supervision and management over the public good characteristic of the hospitals.

According to the requirement of modern public service system, in the next step, we need to get rid of the dual-track system in non-profit organizations management and effectively conform the big non-profit organization system and civil non-profit organizations, developing modern public service organizations. These organizations have to set up independent structure with non-profit legal person governance. The government needs to establish unified management organizations to carry out management and establish unified supervision and management organizations to carry

out supervision and management. For those non-profit legal persons providing public services completely for public interest, the government will provide all-round favorable policies to them and even provide them with financial subsidies in full amount. As for the non-profit legal persons with certain public interest or some public interest, the government can give some financial subsidies to them.